



Operating Budget Report

Fiscal Year 2017



September 1, 2016 – August 31, 2017

Fiscal Year 2017 Operating Budget Report

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Contents

Message from the Chief Financial Officer	1
FY 2016-17 Legislation Impacting TRS.....	2
HB 1 – State Appropriations.....	2
HB 2 – State Supplemental Appropriations	2
HB 2168 – Annuity Payment	2
HB 2974 – Systems and Programs Administered by TRS	2
SB 20 – State Agency Contracting	2
Legislative joint interim committee to Study TRS-Care and TRS-ActiveCare:.....	2
Additional focus specifically on TRS-ActiveCare to study:	3
TRS Organizational Chart	4
TRS Strategic Plan Highlights.....	5
Five Strategic Plan Goals:	5
Financial Policies and Guidelines	9
Basis of Budgeting	9
Policies.....	9
Planning.....	9
Budget Policy.....	10
Budget Monitoring.....	11
Explanation of Revenue Sources and Changes in Fund Balances	12
Pension Trust Fund.....	12
TRS Care, Healthcare Program for Retired Teachers	13
TRS-ActiveCare, Healthcare Program for Active Teachers.....	15
403(b)	16
Summary of FY 2017 Operating Budget.....	17
Summary of FY 2017 Operating Budget.....	18
Expenses by Department	19
Expenses by Department (cont.).....	20
Expenses by Fund – Pension Trust Fund	28
Expenses by Fund – TEAM Program.....	29
Expenses by Fund – Soft Dollar Program	30
Expenses by Fund – TRS Care Fund	31
Expenses by Fund – TRS ActiveCare Fund.....	32
Expenses by Fund – 403(b) Program.....	33
Full Time Equivalent Employees (FTEs) by Division/Department	34
Capital Projects, Comparison by Biennium	36
General Provisions	38
Contracts that Exceed \$100,000 in Value	40
Appendix Section	41
Appendix A: Cost Drivers, Statistical and Supplemental Data	42
Appendix B: Glossary.....	51



Message from the Chief Financial Officer

The total administrative operations budget for the Teacher Retirement System for FY 2017 is \$164.5 million across all funds. The approved budget represents the FY 2017 portion of the FY 2016-17 biennial legislative appropriations and is within legislative authority. The budget is built on strategic planning efforts and represents the agency's funding priorities.

I am pleased to present the Teacher Retirement System's FY 2017 Operating Budget Report which was prepared in accordance with TRS' General Provisions. An important principle in budgeting is to develop a budget consistent with tactics to achieve goals. Budget staff embarked on the budget process by engaging department managers in submitting and justifying current and long term financial plans within budget guidelines, instructions, and a budget timeline. This document represents the launch of a more comprehensive budget document that embodies imperative fiscal and strategic components.

The agency's efforts continue to focus on the following funding priorities:

- Advance the TRS Enterprise Application Modernization (TEAM) program. Phase 1 Deployed in Production should commence in FY 2018.
- Attract and retain high quality staff by continuing to fund a 3% merit pool for Red River staff and 5% for the Investment Management Division.
- Continuing London office operations. The FY 2017 budget includes the annualization of salaries and operating costs.
- Support administrative functions by funding increases in operating expenses for leased space, postage, software, licenses, and building maintenance and repairs.
- Address workload demands and operational oversight in the healthcare division by funding six additional staff.

Key components of the budget document include legislative impacts from the 84th legislative session, revenue projections for the pension and health care funds, operating budget summaries, and capital projects.

The focus of the TRS 2017 Operating Budget continues to be updating systems, sustaining a culture of innovation and efficiencies and delivering higher levels of service to our members while maintaining fiscal responsibility.

Don Green



Chief Financial Officer

FY 2016-17 Legislation Impacting TRS

TRS follows a collaborative process in developing the agency's legislative initiatives. Strong working relationships with all stakeholders are developed and maintained. During the 2015 session, more than 6,000 bills/joint resolutions were reviewed and monitored with 400 TRS-related bills analyzed. The following bills represent those of interest to TRS.

HB 1 – State Appropriations

- Maintains State Contribution of 6.8% towards the pension fund (*prior legislation increased the member contribution rate to 7.7% in FY 2017*).
- States the intent of the Legislature that TRS shall not increase retiree health premiums for 2016/2017.

HB 2 – State Supplemental Appropriations

- Provides biennial funding of \$768 million for TRS-Care.

HB 2168 – Annuity Payment

- Moves the payment date for retirees from the first working day of the month following the month for which the annuity is due to the last working day of the month for which the annuity is due.

HB 2974 – Systems and Programs Administered by TRS

- “Annual compensation” is service in a 12-month period to be determined by rule of the TRS Board rather than the standard school year for service credit.
- Membership eligibility in the retirement system is established through one employer.
- Membership does not terminate if the person continues to work for a TRS-covered employer in a part-time position that is not eligible for membership.
- Limits the amount of out-of-state service credit that may be purchased to five years rather than 15 for an IRS plan qualification requirement.

SB 20 – State Agency Contracting

- Amends the Government Code and Education Code to make comprehensive changes to state agency contracting, purchasing, and accounting procedures.

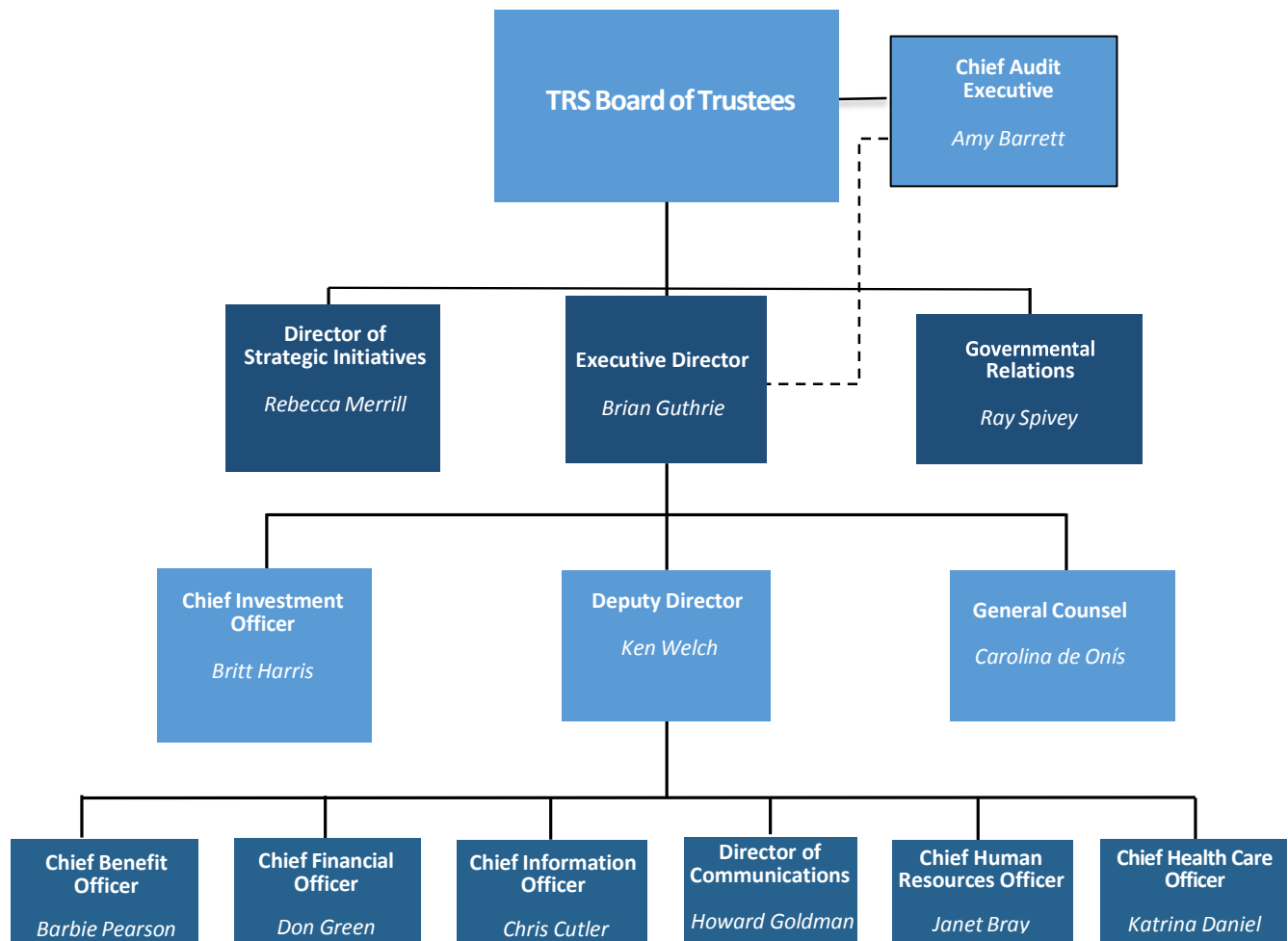
Legislative joint interim committee to Study TRS-Care and TRS-ActiveCare:

- Created by SB 1940 and HB 2974.
- Composed of three Senators and three State Representatives.
- Report findings and recommendations are due January 15, 2017.
- Focus of the study is to examine and assess:
 - the financial soundness of the plans;
 - the cost and affordability of plan coverage; and
 - the sufficiency of access to physicians and health care providers under the plan.

Additional focus specifically on TRS-ActiveCare to study:

- The impact of allowing school districts and other participating entities in the uniform group coverage program for active employees under Chapter 1579, Insurance Code, to opt out.
- The impact, should participating entities be authorized to opt out of the program, of allowing or prohibiting future participation by previous participating entities that have opted out.
- The impact of establishing a regional rating method for determining premiums charged in different regions of the state for the benefits provided under a group coverage plan established under the program.

TRS Organizational Chart

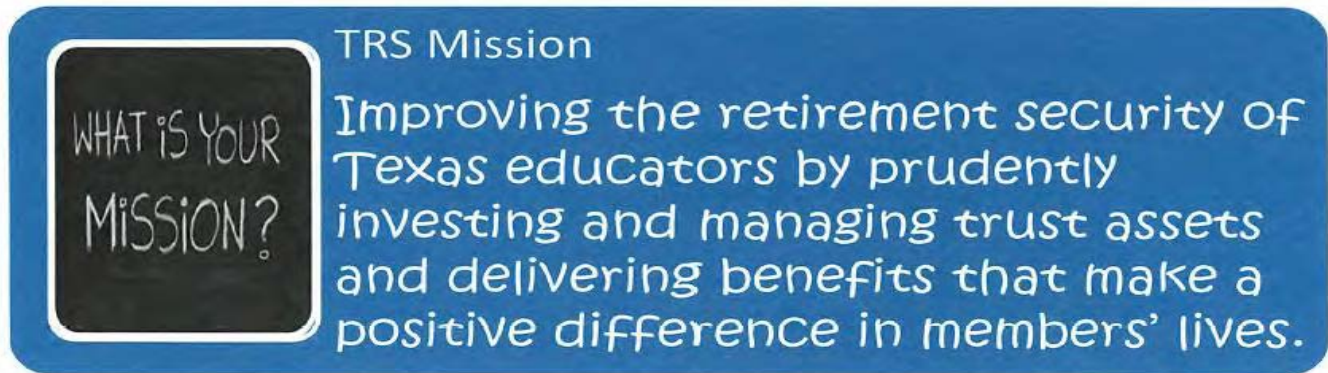


The Teacher Retirement System of Texas was founded in 1936 to improve the retirement security of Texas educators. The money in the trust is held exclusively for the benefit of TRS members. The nine member board of trustees acts as a fiduciary of TRS assets. The board members are appointed by the Governor of Texas. Five must have financial expertise. Four must participate in an election. The governor appoints from the top three vote recipients per election.

TRS Strategic Plan Highlights

For the period FY 2017 - FY 2021

TRS supports the statewide objectives by effectively serving our members, by operating efficiently and openly, and by focusing on our mission to provide benefits that make a positive difference in our members' lives.



Five Strategic Plan Goals:

- Goal 1: Sustain a financially sound pension trust fund.
- Goal 2: Continuously improve our benefit delivery.
- Goal 3: Facilitate access to competitive, reliable health care benefits for our members.
- Goal 4: Attract, retain, and develop a highly competitive staff.
- Goal 5: Promote purchasing selection practices that foster meaningful and substantive inclusion of historically underutilized business (HUBs).

Goal 1: Sustain a financially sound pension trust fund

TRS Trust Fund Actuarial Snapshot	8/31/15	Goal
Funded Ratio	80.2%	≥80%
State Contribution Rate	6.8%	
Non-Social Security School District Contribution Rate	1.5%	
Member Contribution Rate of Payroll	7.70%	
Funding Period (years)	33.3 years	≤30 years
Annual Required Contribution (ARC)	7.92%	
Are contributions sufficient to fund future liabilities?	No	Yes

With a pension fund, the challenge is to manage the funded ratio and funding period. The funding ratio is expressed as a percentage. Specifically the portion of the unfunded liability that exists today as net available assets. It answers the question, what percentage of the unfunded liability would the pension fund be able to pay today if the expected future liability existed today? The expected future liability is the total in today's dollars of the next 30 years' worth of annuity payments. Ideally the funding ratio would be 80% or higher.

The funding period is the number of years the fund would need to pay off the total unfunded liability. Ideally the funding period should be 30 years or less.

The metrics recorded in the chart above are actual figures from the fund's valuation report for the period ending 8/31/2015. We do not provide estimates or projections. It is the goal of the fund to manage to a funded ratio of 80% and a funding period of 30 years or less. The total contribution rate is currently 7.70%. The required contribution rate, including deferred investment losses, is 8.76%.

With the passage of legislation in 2013 that increased member contribution rates, the unfunded liability is expected to increase every year until 2029 and then it is expected to decline until a payoff occurs around 2049. Both the funded ratio and funding period are affected by a number of variables including membership, covered payroll growth, longevity and investment returns.

Goal 2: Continuously improve our benefit delivery

According to the 2016 Member Satisfaction Survey:

- Retiree satisfaction was particularly high, with an overall approval rating (satisfied or very satisfied) of 96.5%
- Active members also gave TRS a very high overall rating (satisfied or very satisfied) of 88.8%.
- In addition to the 2016 Member Satisfaction Survey, other ongoing functions to build and maintain strong, customer-focused relationships include reporting key performance measures to the Legislative Budget Board (LBB) and are also included in the agency's Biennial Legislative Appropriations Request.

Key Performance Measures	FY 2015 Target	FY 2015 Actual	Explanation
TRS expense per member (Benefit Administration Expenses)	\$28	\$24.37	Actual was lower than target as a result of a 3% - 4% growth in membership.
Investment expense per member in basis points	23bp	19.75bp	Target is higher than actual because target reflects expected future increases in expenses as TRS expands its investment allocation spectrum to diversify risk.
Service level percentage of calls answered in specified time interval	80%	84%	Target was exceeded as a result of the program's ability to maintain steady staffing levels and the Workforce Manager position throughout the fiscal year.
Number of benefit claim applications processed annually (service and disability retirements, refunds, and death claims)	72,000	69,696	All applications are processed. The variance is due to the number of applications received.

Goal 3: Facilitate access to competitive, reliable health care benefits for our members

In FY 2015, over \$2 billion was provided by multiple funding sources for TRS-Care. State, district and active employee contributions are based on a percentage of active employee payroll rather than by medical trend. Required State contributions totaled almost \$300 million. An additional \$768 million in supplemental funding was received.

Over \$1.76 billion is received annually from four funding sources for TRS-ActiveCare. Because the level of legislated state and district funding has not changed since inception of the plan, employees shoulder the majority of the costs.

A major TRS initiative for the upcoming fiscal year is to serve as a resource for the legislature on matters involving TRS-Care and TRS-ActiveCare. This includes working with plan consultants to carefully monitor TRS-Care funding, assisting, as needed, with the Joint Legislative Committee on TRS Health Benefit Plans, and educating stakeholders about options for sustaining TRS-Care and managing TRS-ActiveCare. As part of this work, TRS also plans to enhance health data analytics to drive key decision-making to support cost management and resource maximization.

Goal 4: Attract, retain, and develop a highly competitive staff

- TRS is consistently selected as a TOP Workplace in Austin as part of the *Austin American Statesman's* workplace survey. TRS is a preferred employer because of its mission and culture and because it provides employees with the tools needed to succeed. In FY 2017, this includes developing a manager's tool kit to serve as an online portal providing HR information and tools for managers.
- FY 2016-17 appropriations includes funding for a 5% merit pool for investment management division and a 3% merit pool for Red River staff. Merit allocations continue to be centralized. The Executive Director and Deputy Director work with managers to determine merit allocations through a departmental analysis.
- Increase employee in-house learning opportunities and development.
- Maintain a desirable work environment that includes efficient use of space.
- Increase participation in remote work.
- Employee readiness assessment for the TRS Enterprise Application Modernization (TEAM) program.



Goal 5: Promote purchasing selection practices that foster meaningful and substantive inclusion of historically underutilized business (HUBs).

TRS is committed to adhering to the HUB program and for operating under the highest ethical standards. The agency will continue to:

- Support and implement responsibilities as determined by the Texas Comptroller of Public Accounts (CPA).
- Host the annual TRS HUB forum and participate in local and selected statewide HUB events including CPA forums.
- Update the TRS Contract Administration Policy (CAP) which establishes the guidelines to ensure compliance with all applicable laws, rules and fiduciary responsibilities when contracting for goods and services and to establish responsibilities for the administration of contracts to which TRS is a party. The CAP includes a delegated signature and authority matrix.
- Developed a Board procurement policy for the acquisition of goods and services by the Board. The policy is consistent with applicable federal and state laws and TRS policies and procedures, as well as with TRS' fiduciary responsibilities.

Financial Policies and Guidelines

The goal of the Teacher Retirement System (TRS) is to develop and submit a balanced budget so that the agency operates in accordance with the guidelines of the General Appropriations Act adopted by the 84th Texas Legislature (GAA). A balanced budget is one in which the total revenues equal total estimated expenditures. The budget for FY 2017 is balanced and prepared in accordance with board policy and guidelines and Generally Accepted Accounting Principles (GAAP).

Basis of Budgeting

The TRS budget is managed using the accrual basis of accounting in accordance with budgetary accounting practices. In accrual basis, revenues are recognized when they become available and measurable. Expenditures are recognized when the liability is incurred.

Policies

Bylaws of the Board of Trustees of the Teacher Retirement System of Texas

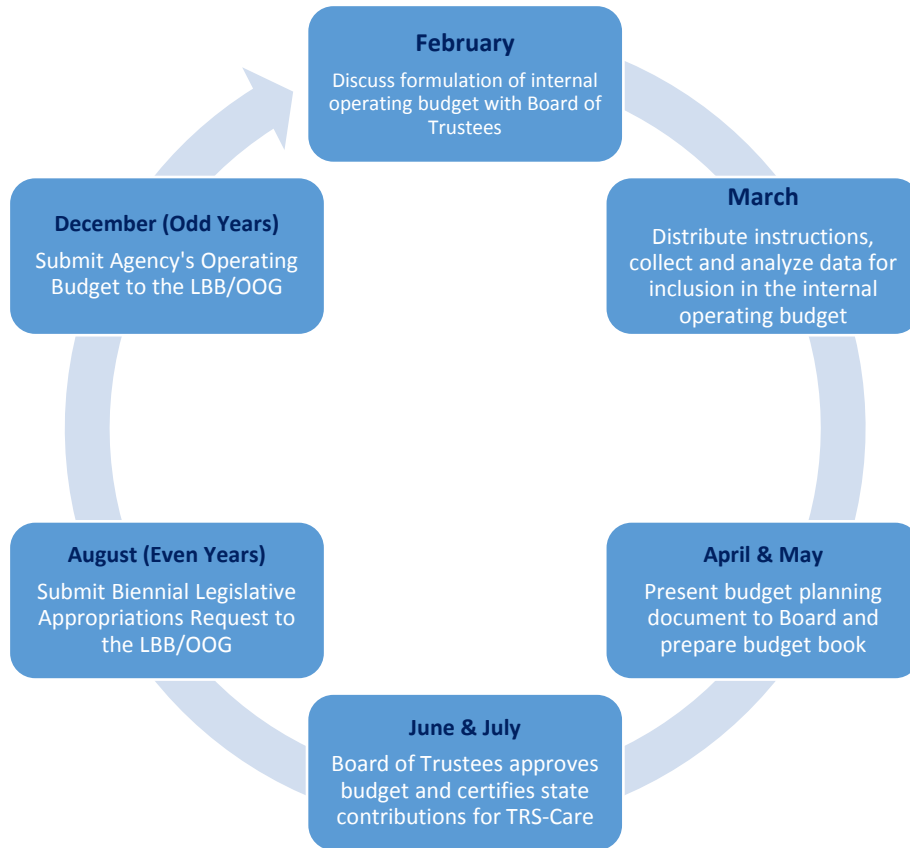
Art. 3 Section 3.1.3 Budget Committee. The Board shall have a Budget Committee, which shall meet as necessary at the call of its chairman to:

- (a) recommend budgets for approval by the Board;
- (b) recommend intra-budget transfers and budget amendments for approval by the Board; and
- (c) monitor implementation of the operating budgets of the pension trust and other programs.

Art. 5 Section 5.4 Budgets and Fiscal Year. The budgets of the pension trust fund and any other trust funds administered by TRS are adopted by the Board and may be amended by the Board in subsequent meetings. The TRS fiscal year shall begin September 1 and shall end the following August 31.

Planning

The development of the operating budget is a participatory process that includes a series of meetings with agency management to create the budget. Budget instructions are sent to all department managers to submit requests for operating and capital expenditures for the upcoming fiscal year and for the next biennium during even numbered years (see diagram on the following page). Salaries and other personnel costs are developed by budget staff using assumptions required to fund assumed expenditures. Department managers review the staffing list to ensure accuracy. Department managers are instructed to use a baseline budgeting approach plus needed funding for cost escalators. Requests for additional funds and staff are evaluated for increasing work demands, changing methods of operations, and delivery of mission critical services.

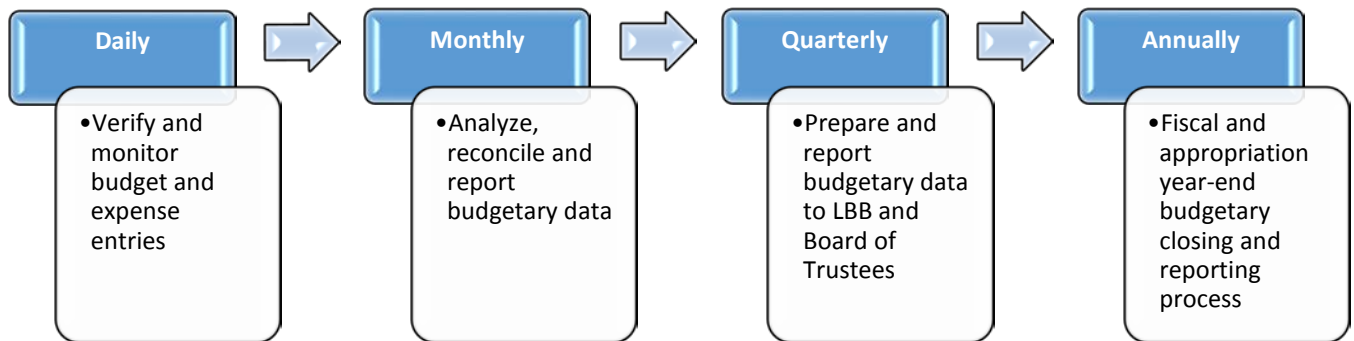


Budget Policy

- A single-year budget will be presented to the TRS board annually for approval. The total approved budget for operating expenses and capital outlay cannot be exceeded without the approval of the TRS board.
- The budget emphasizes implementing the current strategic plan.
- Capital projects not started or completed in the current fiscal year have Unexpended Budget (UB) authority, which means any remaining funds for those projects in the first year of biennium can be moved to the next fiscal year within the same biennium.
- The general provisions of the budget authorize the Executive Director, or Deputy Director in the absence of the Executive Director to transfer budgeted funds up to \$100,000 or 12 ½% of a major expense category (whichever is greater) between major expense categories, provided that the total approved budget for operating expenses and capital outlay is not exceeded. This provision applies separately to the Pension Trust Fund, the Retired and Active Health Benefits Funds, and the 403(b) Certification Program.

Budget Monitoring

Budget staff continuously monitor financial performance relative to the adopted budget supporting timely decision making by senior management. On a monthly basis, budget staff perform budget-to-actual or budget-to-projected actual comparisons of expenditures. Staffing levels are also monitored and earned lapse to date is calculated. On a quarterly basis, budget staff meet with department managers to discuss current year expenditure trends and patterns and any issues that may have fiscal impact. The following diagram depicts the various monitoring timeframes.



Explanation of Revenue Sources and Changes in Fund Balances

The system's accounts are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a self-balancing set of accounts that comprise its assets, liabilities, revenues and expenses. TRS maintains two categories of funds.

Fiduciary funds include the pension trust fund and TRS-Care. Fiduciary funds are used to report assets held in a trustee capacity on behalf of others. The reporting focus is on net position and changes in net position. The agency's operating budget is sourced from each fund respectively. Benefits are paid from the pension trust fund. Healthcare claims are paid from TRS-Care.

Proprietary funds include TRS-ActiveCare and the 403(b) program. These funds are used to account for business type activities or those for which a fee is charged to external users for goods and services. The reporting focus is on the determination of operating income, changes in net position, financial position and cash flows. Benefits are paid from TRS-ActiveCare. Operating expenses are paid from both funds.

Pension Trust Fund

Funding for the pension trust fund is derived from three main sources: member contributions, employer contributions and investment income.

Member Contributions

Member contributions are set by statute and are 7.2% of eligible compensation for FY 2016. That rate will rise to 7.7% of eligible compensation in FY 2017. There are over 820,000 actively contributing members in TRS.

Employer Contributions

The same contribution rate is used for all employers and the State of Texas. Employer contributions are often called the state contribution rate and are established in the General Appropriations Act (GAA). That rate is 6.8% of eligible compensation through FY 2017. There are 1,347 contributing employer entities.

Investment Income

The invested assets of the pension trust fund are a major contributor of resources used to pay annuitants. Since the fund's inception in 1938, 62% of all trust fund revenue is related to investments. The assumed rate of return is 8.0 percent.

Projections

With an expected 3.5% growth in covered payroll for public education and a 2.5% expected growth in covered payroll for higher education, the member contributions amount for FY 2016 should grow in the range of 2-4%. Employer contributions should follow suit since the basis of payroll, that is covered payroll, is the same as member contributions. Annual growth of 3-4% is expected going forward.

Investment earnings are largely dependent on global market conditions and the asset allocation strategy. The long term rate of return for the pension fund is 8.9% (since 1989). Returns for the 20/10/5/3/1 year period are 7.6%/6.2%/9.6%/8.3%/(0.3%) respectively. Constrained returns are expected in the near term with expectations in the 2-3% range.

Benefits paid generally grow 4% per year. Administrative expenses for benefit operations is expected to increase slightly in the near term due to an increased focus on customer service along with inflationary increases. Investing costs are generally netted against investment returns.

Pension Trust Fund	Actual FY 2015	Estimated FY 2016	Estimated FY 2017
Member Contributions	2,626,113,417	2,678,635,685	2,732,208,399
Employer Contributions	2,990,661,235	3,140,194,297	3,297,204,012
Investment	(409,025,967)	5,141,548,248	5,186,900,476
Total Additions	5,207,748,685	10,960,378,231	11,216,312,886
Benefits Paid	9,412,728,579	9,789,237,722	10,180,807,231
Administrative Expenses (excluding investing activity expenses)	35,556,979	37,334,828	39,201,569
Total Deductions	9,448,285,558	9,826,572,550	10,220,008,800
Net Increase (Decrease)	(4,240,536,873)	1,133,805,680	996,304,086
Net Position, Beginning of Year	132,779,243,085	128,538,706,212	129,672,511,892
Net Position, End of Year	128,538,706,212	129,672,511,892	130,668,815,978

TRS Care, Healthcare Program for Retired Teachers

Revenue for TRS-Care comes from six sources including state contributions, active member contributions, district contributions, retiree premiums, federal programs, and investment income.

- State contributions, active member contributions, and district contributions are generally defined as a percentage of the active employee payroll. The current contribution amount is 1% of active payroll for state contributions, 0.65% for active members, and 0.55% for district contributions.
- Retiree premiums are tiered by years of service, Medicare status, dependent coverage and plan election.
- Federal program revenue is generated from part D of Medicare for prescription drug subsidies.
- Investment income is earned on whatever cash balance is maintained with the State of Texas treasury.

Projections

The covered employee payroll that serves as a base for three of the six revenue sources is expected to grow along with the growth in active teachers. For the next few years (i.e. through FY 2019), payroll growth is expected to average 3.5% per year. State contributions in FY 2015 were higher than normal due to a one time state appropriation of \$768 million to help ensure program solvency through FY 2017.

Retiree premiums have not changed substantially in at least five years. Although state legislative action might affect retiree premiums during the 2017 session, growth in premiums is not expected to exceed the growth in covered payroll.

Federal revenue is dependent upon congressional action and continued program funding.

Healthcare claims expense, including pharmaceutical costs, have been increasing 7-8% per year for the last decade. That trend is expected to continue in the near term. Administrative expenses will go up more than the historical average over the next couple years due to an increase in staffing by six positions.

With expected claims expense outpacing revenue growth, the TRS-Care fund is expected to become insolvent during FY2018. TRS is pursuing legislative solutions to the long term solvency of the TRS-Care program.

TRS-Care, Healthcare Program for Retired Teachers	Actual FY 2015	Estimated FY 2016	Estimated FY 2017
State Contributions	1,049,199,112	318,638,623	325,011,396
Member Contributions	567,262,732	585,656,875	596,205,652
District Contributions	202,976,470	186,709,933	190,214,958
Federal Revenue	126,806,652	179,269,716	208,730,924
Investment Income	1,495,680	3,689,726	2,050,158
Total Additions	1,947,740,646	1,273,964,873	1,322,213,088
Healthcare Claims Paid	1,428,992,213	1,575,316,156	1,752,250,553
Administrative Expenses	3,769,680	5,325,902	5,936,696
Total Deductions	1,432,761,893	1,580,642,058	1,758,187,249
Net Increase (Decrease)	514,978,753	(306,677,185)	(435,974,161)
Net Position, Beginning of Year	457,940,487	972,919,240	662,242,055
Net Position, End of Year	972,919,240	666,242,055	230,267,894

TRS-ActiveCare, Healthcare Program for Active Teachers

Revenue for TRS-ActiveCare comes from state contributions, district contributions and employee contributions. State funding is \$75 per month per employee provided through the school finance formulas. The district contribution is a minimum of \$150 per month per employee but districts may (and typically do) contribute more. Employee contributions vary by plan election and coverage selected.

Projections

Both state contributions and district contributions are affected by the growth in the number of active teachers. Historically the number of teachers is highly correlated to the state's population. Population growth has averaged 1.8% per year over the past 30 years. For the next few years (i.e. through FY 2019), that growth is expected to average 2-3% per year.

Member contributions are highly dependent upon member elections of coverage. More members are opting out of coverage which might lead to a slowing in the growth of member contributions overall. If state legislative action leads to an increase in premiums, that trend may accelerate. On the chart below, state contributions, member contributions and district contributions are all included in the premiums revenue category. Premiums have been increasing roughly 5% per year.

The other revenue category in the chart below includes federal revenue for ARRA, payments that separating teachers make for electing COBRA coverage and reimbursements the State of Texas makes for the payment of benefits provided to TRS employees.

Claims expense has been increasing about 2.5% per year. Administrative expenses include an expected increase in actuarial and consulting support costs.

TRS-ActiveCare, Healthcare Program for Active Teachers	Actual FY 2015	Estimated FY 2016	Estimated FY 2017
Premiums	1,943,949,265	2,041,146,728	2,143,204,065
Investment Income	1,537,408	1,500,000	1,500,000
Other Revenue	236,749	225,000	225,000
Total Additions	1,945,723,422	2,042,871,728	2,144,929,065
Healthcare Claims Paid	1,878,521,841	1,925,484,887	1,973,622,009
Administrative Expenses	2,225,417	3,387,496	4,004,046
Total Deductions	1,880,747,258	1,928,872,383	1,977,626,055
Net Increase (Decrease)	64,976,164	113,999,345	167,303,009
Net Position, Beginning of Year	22,839,112	87,815,276	201,814,621
Net Position, End of Year	87,815,276	201,814,621	369,117,631

403(b)

A 403(b) plan is also known as a tax sheltered annuity (TSA) plan. It is an optional retirement plan for employees of public school districts in Texas. Companies who want to offer 403(b) products in Texas school districts must register with, and be certified by, TRS. TRS oversees the registration process and provides guidance to districts and registered providers. Teachers who elect this option interact directly with the third party provider. TRS does not take custody of the contributions or provide investment oversight.

The revenue associated with this program is based on a fee paid by providers which is \$3,000 per registration. The revenue varies annually based on the number of providers who choose to register. The resulting certification is good for three years after which the provider must recertify.

Projections

Since registrations are good for a three year period, not all companies will pay to register every year. Only five registrations are expected in FY 2016 with 51 expected in FY 2017.

Administrative expenses include staff costs related to overseeing the certification process. The expected administrative expense is higher for FY 2017 due to consulting support as TRS plans to review its 403(b) program.

403(b) Program	Actual FY 2015	Estimated FY 2016	Estimated FY 2017
Fee Revenue	48,000	15,000	153,000
Interest Income	1,360	1,500	1,500
Total Additions	49,360	16,500	154,500
Administrative Expenses	78,446	85,397	129,973
Total Deductions	78,446	85,397	129,973
Net Increase (Decrease)	(29,086)	(68,897)	24,527
Net Position, Beginning of Year	328,156	299,070	230,173
Net Position, End of Year	299,070	230,173	254,700

Summary of FY 2017 Operating Budget

Pension Trust Fund and Soft Dollar Program

	Administrative Operations	TEAM Program	Soft Dollar Program	TOTAL
Sources of Funds				
Legislative Appropriations	77,162,229	-	-	77,162,229
Balance Forward	4,599,679	20,107,736	-	24,707,415
Fringe Benefits	14,873,685	1,337,481	-	16,211,166
Performance Incentive Compensation	11,360,000	-	-	11,360,000
Soft Dollar Revenue	-	-	25,175,436	25,175,436
Total Sources	107,995,593	21,445,217	25,175,436	154,616,246
Uses of Funds				
Wages and Benefits	65,208,457	6,383,299	-	71,591,756
Performance Incentive Compensation	11,360,000	-	-	11,360,000
Professional Fees and Services	4,238,930	13,631,371	5,663,000	23,533,301
Support Costs	6,049,497	20,000	334,720	6,404,217
Travel	1,666,460	40,000	-	1,706,460
Capital Projects	6,539,679	-	-	6,539,679
Operating Costs	12,932,570	1,370,547	19,177,716	33,480,833
Total Uses	107,995,593	21,445,217	25,175,436	154,616,246

Administrative operations are funded by the pension trust fund and include all agency operations for benefit administration and investment management. The State Legislature appropriates funding from the pension trust fund to pay for operations. The agency is allowed to carry forward capital project funding within a biennium. Funding for both fringe benefits and performance incentive compensation payments is appropriated separately.

The TRS Enterprise Application Modernization (TEAM) Program is a large, multi-year capital project that involves creating a new IT platform for benefits administration. The funding and spending for that project is being tracked separately. The soft dollar program is tracked separately as well. The revenue generated via the soft dollar program is spent exclusively for investment management purposes. Soft dollar revenue is not appropriated.

Summary of FY 2017 Operating Budget

Health Benefits Administration and 403(b) Program

	TRS-Care	TRS-ActiveCare	403 (b)	TOTAL
Sources of Funds				
Reserved for Administrative Operations	5,786,696	4,004,046	129,973	9,920,715
Total Sources	5,786,696	4,004,046	129,973	9,920,715
Uses of Funds				
Wages and Benefits	3,442,419	2,016,814	69,973	5,529,206
Professional Fees and Services	1,917,750	1,915,750	50,000	3,883,500
Support Costs	62,200	37,142	-	99,342
Travel	27,500	10,000	10,000	47,500
Operating Costs	336,827	24,340	-	361,167
Total Uses	5,786,696	4,004,046	129,973	9,920,715

The chart above is a summary of the FY 2017 budget by fund for the healthcare funds and the 403(b) program. The healthcare funds operate on a “pay-as-you-go” basis and collect revenue from members, employers and the State and use that funding to pay for claims and administrative operations. The amounts above are for administrative operations only and do not include claims expenses. None of the amounts above are appropriated.

Expenses by Department

Department/Division	Expended FY 2015	Budgeted FY 2016	Budgeted FY 2017	Variance from FY 2016 to FY 2017	
Board	84,273	186,000	186,000	0	-
Executive	1,000,805	1,035,883	1,105,954	70,071	7%
Internal Audit	1,440,727	1,966,609	2,379,814	413,205	21%
Legal	4,280,632	4,865,255	5,163,849	298,594	6%
Government Relations	328,944	334,230	354,444	20,214	6%
Communications	1,123,403	1,348,873	1,458,540	109,667	8%
Human Resources	1,433,663	1,692,864	2,197,043	504,179	30%
Program Management Office	17,904	40,000	40,000	0	-
Strategic Initiatives	458,402	623,262	712,880	89,618	14%
Risk Management	1,009,118	1,253,832	1,284,258	30,426	2%
Administrative Costs*	2,385,439	6,209,821	6,294,345	84,524	1%
Agency Support	13,563,310	19,556,629	21,177,127	1,620,498	8%
Investment Operations	31,062,063	38,883,873	40,125,510	1,241,637	3%
London Office	-	1,360,311	2,207,895	847,584	62%
Soft Dollars	26,508,713	21,967,462	24,408,296	2,440,834	11%
Investment Management	57,570,776	62,211,646	66,741,701	4,530,055	7%
Chief Benefit Officer	269,057	418,682	391,407	(27,275)	(7%)
Benefit Processing	4,582,636	5,318,189	5,309,676	(8,513)	-
Benefit Counseling	3,865,464	4,099,246	4,058,347	(40,899)	(1%)
Benefit Payments	734,652	641,396	661,482	20,086	3%
Benefit Reporting	489,768	621,793	636,812	15,019	2%
Benefit Services	9,941,577	11,099,306	11,057,724	(41,582)	-
Chief Financial Officer	231,226	273,291	285,784	12,493	5%
General Accounting	2,219,942	2,338,532	2,514,413	175,881	8%
Records Management	1,265,250	767,768	889,212	121,444	16%
Investment Accounting	494,432	490,871	506,300	15,429	3%
Staff Services	1,810,712	2,105,240	2,294,024	188,784	9%
Facilities Services	6,524,605	4,923,205	5,493,734	570,529	12%
Printing, Mailing, Supply	2,821,616	3,554,701	3,579,305	24,604	1%
Financial Services	15,367,783	14,453,608	15,562,772	1,109,164	8%

*The administrative costs line item above includes retiree health insurance, unemployment compensation, lump sum payments, agency wide consultants, supplies, furniture, interns, and contingency amounts for unexpected healthcare, printing and mailing costs.

Expenses by Department (cont.)

Department/Division	Expended FY2015	Budgeted FY2016	Budgeted FY2017	Variance FY16-FY17	
Chief Information Officer	1,368,096	1,822,022	2,391,882	569,860	31%
Network Support	4,696,724	6,587,677	11,411,763	4,824,086	73%
Systems Support, Green Team	1,598,753	1,704,681	1,661,213	(43,468)	(3%)
Technical Support	4,507,281	6,018,609	868,380	(5,150,229)	(86%)
Systems Support, Gold Team	1,486,145	1,630,074	1,682,802	52,728	3%
Systems Architecture	528,942	650,523	615,665	(34,858)	(5%)
Information Technology	14,185,941	18,413,586	18,631,705	218,119	1%
TEAM Program	14,376,672	24,636,163	21,445,217	(3,190,946)	(13%)
TRS Care Administrative	4,023,862	5,325,902	5,786,696	460,794	11%
Active Care Administrative	2,262,805	3,387,496	4,004,046	616,550	18%
403(b) Certification	91,351	85,397	129,973	44,576	52%
Agency Total	131,384,077	159,169,733	164,536,961	5,367,228	3%

Division Expenses and Goals – Agency Support

Type of Expenditures	Expended FY 2015	Budgeted FY 2016	Budgeted FY 2017
Salaries and Benefits	10,722,095	14,426,754	16,058,425
Professional Fees & Services	1,015,705	2,224,475	2,616,700
Other Operating Expenses	1,825,509	2,905,400	2,502,002
Total	13,563,310	19,556,629	21,177,127

Includes Executive, Internal Audit, Legal, Governmental Relations, Communications, Human Resources, Project Management Office, Strategic Initiatives, Risk Management, Interns, and agency-wide.

- Advance TEAM Program and ensure employee readiness
- Maintain and enhance stakeholder communication
- Attract, retain and develop a highly competent staff
- Maintain and increase TRS national profile
- Sustain a financially sound pension trust fund
- Provide independent, objective assurance and consulting services designed to add value and improve the organization's operations
- Define and maintain standards for project management and execution as well as business analysis and design within the organization
- Provide legal advice and services to support TRS mission (administration, investments, benefits and insurance) following a cultural re-alignment of client focus, appropriation risk mitigation, and client education

Division Expenses and Goals – Investment Management

Type of Expenditures	Expended FY 2015	Budgeted FY 2016	Budgeted FY 2017
Salaries and Benefits	28,195,703	33,695,292	33,887,617
Professional Fees & Services	4,569,738	5,471,764	6,703,000
Other Operating Expenses	24,805,335	23,044,590	26,151,084
Total	57,570,776	62,211,646	66,741,701

Delivery of exceptional long-term performance (8% total return and 1% alpha). Perpetual commitment to:

- The IMD Culture
- Personal high character, integrity and professionalism
- World class communicators
- Personal accountability
- Professional collaboration
- Recruitment, retention and training of “A players” who meet these requirements
- 20% annual productivity improvement (quality, cost, time)

Division Expenses and Goals – Benefit Services

Type of Expenditures	Expended FY 2015	Budgeted FY 2016	Budgeted FY 2017
Salaries and Benefits	9,729,683	10,816,381	10,762,667
Professional Fees & Services	110,630	113,090	113,090
Other Operating Expenses	101,264	169,835	181,967
Total	9,941,577	11,099,306	11,057,724

Is dedicated to providing excellent customer service delivering pension benefits by providing accurate and timely information to TRS participants and reporting entities.

- Developed an appeals tracking process to ensure proper management oversight
- Successfully incorporated Benefit Accounting Department into Benefit Services reorganizing them into separate departments, Benefit Payments and Benefit Reporting
- Created a Data Conditioning Business Core Team responsible for analyzing and preparing data to for successful conversion to the TRUST system. Collaborated with IT to condition over 1.4 million member accounts
- Transitioned theory training and telephone customer service QA to Human Resources
- Completed DLR Session for Phase I TEAM implementation

Division Expenses and Goals – Financial Services

Type of Expenditures	Expended FY 2015	Budgeted FY 2016	Budgeted FY 2017
Salaries and Benefits	4,874,161	5,156,616	5,610,694
Professional Fees & Services	43,034	101,500	124,500
Other Operating Expenses	5,255,339	5,395,492	5,527,578
Capital Projects	5,195,249	3,800,000	4,300,000
Total	15,367,783	14,453,608	15,562,772

Is responsible for supporting the mission of TRS through sound, customer focused fiscal and administrative management that includes a variety of support services while ensuring fiscal responsibility. These activities include accounting services, budget planning and analysis, records management, print and mail services, security, and facility safety and maintenance.

- Prepares and administers agency operations budgets
- Prepares the Comprehensive Annual Financial Report
- Reviews and monitors TRS investment valuations
- Provides a 24/7 security presence and surveillance of TRS grounds and buildings, controls access to TRS grounds and buildings, and assigns and monitors parking
- Supports the Benefit Services division by scanning member and reporting entity documents into the imaging system
- Implement reporting requirements for London Office
- Implement GASB 74 *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans*, GASB 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, and GASB 72, *Fair Value Measurement and Application*
- Streamline and improve procurement and contract processes

Division Expenses and Goals – Information Technology

Type of Expenditures	Expended FY 2015	Budgeted FY 2016	Budgeted FY 2017
Salaries and Benefits	7,736,756	8,829,389	8,869,079
Professional Fees & Services	235,350	342,640	344,640
Other Operating Expenses	5,324,414	7,631,557	7,178,307
Capital Projects	889,421	1,610,000	2,239,679
Total	14,185,941	18,413,586	18,631,705

“Building TRUST through commitment to ethical, quality information technology service and support for our customers, ensuring retirement security for Texas educators.”

- People: Recruit, train and retain great IT staff
- External Partnerships: Develop a collaborative relationship with external partners
- Internal Partnerships: Ensure partnerships within the IT department and with the business
- Infrastructure: Build and maintain a robust IT infrastructure
- Build / Innovate: Develop and maintain a strong, creative applications development team
- Project Management: Manage projects and application portfolios effectively

Division Expenses and Goals – TEAM Program

Type of Expenditures	Expended FY 2015	Budgeted FY 2016	Budgeted FY 2017
Salaries and Benefits	4,105,879	5,722,935	6,383,299
Professional Fees & Services	7,606,849	15,424,526	13,631,371
Other Operating Expenses	2,663,944	3,488,702	1,430,547
Total	14,376,672	24,636,163	21,445,217

TRS Enterprise Application Modernization (TEAM) is the name for the related projects that will modernize TRS technologies, allowing greater flexibility in providing service to TRS membership and reducing the risks of obsolete technology.

- Ability to offer direct deposit of member refunds
- Moving from issuing payments twice a week to daily processing
- Automatic recalculation of service purchase statements
- Ability to accept temporary address changes with effective dates
- File analysis automation

Division Expenses and Goals – Healthcare Programs

Type of Expenditures	Expended FY 2015	Budgeted FY 2016	Budgeted FY 2017
Salaries and Benefits	4,355,755	4,993,229	5,529,206
Professional Fees & Services	1,715,381	3,193,750	3,883,500
Other Operating Expenses	306,882	611,816	508,009
Total	6,378,018	8,798,795	9,920,715

To serve the health care benefit needs of Texas public education employees, retirees and their families.

- Develop and implement a revised organizational structure within the HIB area that supports higher customer service benchmarks and bandwidth
- Develop and enhance communication strategies that assist with engaging stakeholders and maintaining ongoing awareness of health care issues and information
- Successfully support the information requests from the interim committee created by SB1940
- Enhance HIB data analytics to drive key decision making to support cost management and resource maximization
- Solicit, evaluate, and apply new health care delivery methodologies through the medical plan administration service RFP as statutorily allowed

Expenses by Fund – Pension Trust Fund

	Expended FY 2015	Budgeted FY 2016	Budgeted FY 2017	Variance from FY 2016 to FY 2017	
Salaries and Wages	43,745,474	47,412,754	49,267,712	1,854,958	4%
Longevity Pay	599,380	673,640	667,060	(6,580)	(1%)
Retirement Contributions	2,935,387	3,138,435	3,371,343	232,908	7%
Social Security Contributions	3,119,072	3,270,149	3,531,792	261,643	8%
Health Insurance Contributions	5,665,325	6,968,964	7,806,650	837,686	12%
Benefit Replacement Pay	87,058	109,275	93,400	(15,875)	(15%)
Other Employee Benefits	314,276	470,500	470,500	-	-
Performance Incentive Comp	6,274,101	11,200,000	11,360,000	160,000	1%
Total Salaries and Benefits	62,740,073	73,243,717	76,568,457	3,324,740	5%
Professional Fees and Services	1,160,699	2,805,869	4,238,930	1,433,061	51%
Consumable Supplies, Fuels	394,469	576,208	596,122	19,914	3%
Utilities	729,543	1,135,751	1,022,739	(113,012)	(10%)
Travel	996,700	1,612,598	1,666,460	53,862	3%
Rentals	2,304,106	2,943,871	3,174,086	230,215	8%
Dues, Fees, Staff Development	409,261	711,776	761,984	50,208	7%
Subscriptions and Reference Info	239,456	1,756,123	1,051,945	(704,178)	(40%)
Printing and Reproduction	277,643	363,687	326,650	(37,037)	(10%)
Postage, Mailing, Delivery	2,330,276	2,939,751	2,914,997	(24,754)	(1%)
Software Purchases and Service	2,568,360	4,131,291	3,580,530	(550,761)	(13%)
Computer Hardware Service	597,868	899,425	793,425	(106,000)	(12%)
Miscellaneous Expenses	915,773	1,748,881	1,550,661	(198,220)	(11%)
Insurance Premiums	648,640	832,165	842,300	10,135	1%
Furniture and Equipment	486,778	1,282,975	1,029,203	(253,772)	(20%)
Bldg/Equipment Maintenance	1,245,690	1,122,350	1,256,550	134,200	12%
Total Operating Expenses	14,144,563	22,056,852	20,567,652	(1,489,200)	(7%)
Furniture and Equipment	68,308	80,875	80,875	-	-
Capital Projects	6,007,031	5,410,000	6,539,679	1,129,679	21%
Total Capital Expenses	6,075,339	5,490,875	6,620,554	1,129,679	21%
Total Fund Expenses	84,120,673	103,597,313	107,995,593	4,398,280	4%

The pension trust fund is the main source of funds for TRS operations. This funding is appropriated to TRS by the state legislature. When the Board of Trustees adopts the operating budget, the approved funding is transferred from the assets of the pension fund to an administrative fund to pay for operations in that fiscal year.

Expenses by Fund – TEAM Program

	Expended FY 2015	Budgeted FY 2016	Budgeted FY 2017	Variance from FY 2016 to FY 2017	
Salaries and Wages	3,229,863	4,441,378	4,981,538	540,160	12%
Longevity Pay	36,460	40,320	64,280	23,960	59%
Retirement Contributions	214,935	295,020	321,692	26,672	9%
Social Security Contributions	239,294	331,126	360,571	29,445	9%
Health Insurance Contributions	380,808	592,491	634,718	42,227	7%
Benefit Replacement Pay	2,578	8,600	6,500	(2,100)	(24%)
Other Employee Benefits	-	14,000	14,000	-	-
Total Salaries and Benefits	4,103,938	5,722,935	6,383,299	660,364	12%
Professional Fees and Services	7,890,515	15,424,526	13,631,371	(1,793,155)	(12%)
Consumable Supplies	1,379	15,000	20,000	5,000	33%
Travel	7,085	30,000	40,000	10,000	33%
Dues, Fees, Staff Development	68,347	150,000	150,000	-	-
Subscriptions and Reference Info	805,091	1,433,702	705,547	(728,155)	(51%)
Furniture and Equipment	50,862	100,000	10,000	(90,000)	(90%)
Bldg/Equipment Maintenance	(44,439)	5,000	5,000	-	-
Total Operating Expenses	888,323	1,733,702	930,547	(803,155)	(46%)
Computer Hardware	1,493,896	1,755,000	500,000	(1,255,000)	(72%)
Total Capital Expenses	1,493,896	1,755,000	500,000	(1,255,000)	(72%)
Total Fund Expenses	14,376,672	24,636,163	21,445,217	(3,190,946)	(13%)

The TEAM Program is a \$100+ million, multi-year effort to modernize the major IT systems that TRS uses to administer benefits. There are several projects involved including the Line of Business (LOB), data management, program management, application architecture, and website redesign.

Due to the scale and scope of the TEAM Program, the decision was made to track the costs in a separate, internally designated fund. All of the funding comes from the pension trust fund and is appropriated by the Legislature in the agency's capital appropriation.

Expenses by Fund – Soft Dollar Program

	Expended FY 2015	Budgeted FY 2016	Budgeted FY 2017	Variance from FY 2016 to FY 2017	
Professional Fees and Services	4,569,738	5,447,600	5,663,000	215,400	4%
Rent, Building and Parking	254,258	315,200	334,720	19,520	6%
Dues, Fees, Staff Development	193,264	430,000	369,000	(61,000)	(14%)
Subscriptions and Reference Info	11,038,060	12,337,337	14,912,081	2,574,744	21%
Software Purchases and Service	327,403	491,525	724,515	232,990	47%
Miscellaneous Expenses	58,680	371,600	309,980	(61,620)	(17%)
Contracted Services	1,783,780	2,744,200	2,862,140	117,940	4%
Research Activities	8,283,530	-	-	-	-
Other Operating Expenses	21,938,975	16,689,862	19,512,436	2,822,574	17%
Total Expenses	26,508,713	22,137,462	25,175,436	3,037,974	14%
Soft Dollar Revenue Sources					
Revenue Reserved for London	-	-	767,140	767,140	100%
State Street Bank Partnership Agreement	5,036,536	6,000,000	6,000,000	-	-
Commission Sharing	21,275,159	15,337,462	17,608,296	2,270,834	15%
Commission Recapture	194,018	800,000	800,000	-	-
Total Revenue	26,508,713	22,137,462	25,175,436	3,037,974	14%

“Soft dollars” refers to the use of a credited portion of brokerage commissions incurred during trade execution to obtain goods, services, or research. Under board policy, soft dollars are used to pay for research plus goods and services that support the investment decision making function of TRS. Using Section 28(e) of the Securities and Exchange Act as guidance, trades must not be created solely to generate soft dollar revenue and best trade execution must not be sacrificed.

Examples of uses include investment research, data services and reference materials, seminars/conferences, portfolio management services, professional services, and information systems.

Commission sharing relates to sharing a portion of the execution costs on internally traded securities while commission recapture relates to recapturing a portion of the execution costs on externally traded securities (i.e. securities traded by our external portfolio managers).

Expenses by Fund – TRS Care Fund

	Expended FY 2015	Budgeted FY 2016	Budgeted FY 2017	Variance from FY 2016 to FY 2017	
Salaries and Wages	2,339,977	2,416,820	2,524,192	107,372	4%
Longevity Pay	58,800	62,400	66,420	4,020	6%
Retirement Contributions	159,634	158,250	175,228	16,978	11%
Social Security Contributions	175,867	176,812	196,109	19,297	11%
Health Insurance Contributions	310,962	357,178	392,270	35,092	10%
Benefit Replacement Pay	9,539	11,700	11,700	-	-
Other Employee Benefits	2,336	76,500	76,500	-	-
Total Salaries and Benefits	3,057,114	3,259,660	3,442,419	182,759	6%
Professional Fees and Services	786,707	1,578,000	1,917,750	339,750	22%
Consumable Supplies	1,357	6,000	7,000	1,000	17%
Utilities	2,295	6,000	7,000	1,000	17%
Travel	8,010	20,500	27,500	7,000	34%
Rentals	75,119	112,972	33,200	(79,772)	(71%)
Dues, Fees, Staff Development	1,192	5,300	5,900	600	11%
Subscriptions and Reference Info	500	575	600	25	4%
Printing and Reproduction	19,228	110,500	110,500	-	-
Postage, Mailing, Delivery	55,251	185,800	193,232	7,432	4%
Miscellaneous Expenses	16,572	20,595	20,595	-	-
Furniture and Equipment	516	5,000	6,000	1,000	20%
Bldg/Equipment Maintenance	-	15,000	15,000	-	-
Other Operating Expenses	180,041	488,242	426,527	(61,715)	(13%)
Total Fund Expenses	4,023,862	5,325,902	5,786,696	460,794	9%

TRS Care was created in 1985 to provide health insurance for retired teachers and district employees. There are approximately 253,000 Texans covered by TRS Care. TRS spends approximately \$1.4 billion per year on healthcare claims under this program.

All of the claims expense and administrative expense is paid out of the TRS Care Fund. The expenses outlined above are only the administrative expenses and pay for the costs associated with the TRS employees who operate TRS Care. They are not appropriated by the state legislature. Claims administration fees, fully insured premiums and fees related to Affordable Care Act compliance are not included in the totals above.

Expenses by Fund – TRS ActiveCare Fund

	Expended FY 2015	Budgeted FY 2016	Budgeted FY 2017	Variance from FY 2016 to FY 2017	
Salaries and Wages	1,093,484	1,216,965	1,503,363	286,398	24%
Longevity Pay	22,540	26,820	22,280	(4,540)	(17%)
Retirement Contributions	73,584	80,343	98,965	18,622	23%
Social Security Contributions	83,035	85,490	108,545	23,055	27%
Health Insurance Contributions	129,278	163,454	209,861	46,407	28%
Benefit Replacement Pay	1,134	2,600	1,300	(1,300)	(50%)
Other Employee Benefits	56,627	72,500	72,500	-	-
Total Salaries and Benefits	1,459,681	1,648,172	2,016,814	368,642	22%
Professional Fees and Services	732,272	1,615,750	1,915,750	300,000	19%
Consumable Supplies	340	3,000	3,000	-	-
Utilities	1,056	1,500	1,500	-	-
Travel	7,363	8,950	10,000	1,050	12%
Rentals	56,668	85,224	30,642	(54,582)	(64%)
Dues, Fees, Staff Development	1,535	9,000	9,000	-	-
Subscriptions and Reference Info	1,263	900	1,000	100	11%
Printing and Reproduction	-	1,425	2,625	1,200	84%
Postage, Mailing, Delivery	781	4,775	4,915	140	3%
Miscellaneous Expenses	1,078	3,300	3,300	-	-
Furniture and Equipment	769	3,500	3,500	-	-
Bldg/Equipment Maintenance	-	2,000	2,000	-	-
Other Operating Expenses	70,851	123,574	71,482	(52,092)	(42%)
Total Fund Expenses	2,262,805	3,387,496	4,004,046	616,550	18%

TRS-ActiveCare was created in 2001 to provide health insurance for active teachers and district employees. There are approximately 478,000 Texans covered by TRS-ActiveCare. TRS spends approximately \$1.9 billion per year on healthcare claims under this program.

All of the claims expense and administrative expense is paid out of the TRS-ActiveCare fund. The expenses outlined above are only the administrative expenses and pay for the costs associated with the TRS employees who operate TRS-ActiveCare. They are not appropriated by the state legislature. Claims administration fees and fees related to Affordable Care Act compliance are not included in the totals above.

Expenses by Fund – 403(b) Program

	Expended FY 2015	Budgeted FY 2016	Budgeted FY 2017	Variance from FY 2016 to FY 2017	
Salaries and Wages	79,090	64,861	44,290	(20,571)	(32%)
Longevity Pay	-	120	960	840	700%
Retirement Contributions	5,108	4,290	2,924	(1,366)	(32%)
Social Security Contributions	6,122	4,826	3,289	(1,537)	(32%)
Health Insurance Contributions	-	9,000	17,510	8,510	95%
Benefit Replacement Pay	1,031	1,300	-	(1,300)	(100%)
Other Employee Benefits	-	1,000	1,000	-	-
Total Salaries and Benefits	91,351	85,397	69,973	(15,424)	(18%)
Professional Fees and Services	-	-	50,000	50,000	100%
Travel	-	-	10,000	10,000	100%
Total Fund Expenses	91,351	85,397	129,973	44,576	52%

A 403(b) is a tax sheltered annuity (TSA) plan and can be either an annuity contract or custodial account. These plans are offered as an option to school district employees. Certified companies are required to register their 403(b) products with TRS (80th Legislative Session, 2007, HB 2427), and they pay a fee of \$3,000 to do so. TRS oversees and manages the certification and registration process for both companies and products.

Full Time Equivalent Employees (FTEs) by Division/Department

Division / Department Name	Actual FY 2015	Budgeted FY 2016	Budgeted FY 2017
Administration	5.00	5.00	5.00
Internal Audit	10.00	10.00	10.00
Legal Services	26.00	27.00	27.00
Governmental Relations	2.00	2.00	2.00
Communications	5.50	6.50	6.50
Human Resources	10.00	11.00	11.00
Strategic Initiatives	2.00	2.00	2.00
Risk Management	3.00	3.00	3.00
EXECUTIVE	63.50	66.50	66.50
INVESTMENT MANAGEMENT	140.00	143.00	143.00
Administration	2.00	2.00	2.00
Benefit Processing	70.00	81.00	81.00
Benefit Counseling	61.80	63.60	63.60
Benefit Payments		9.00	9.00
Benefit Reporting		8.50	8.50
Member Data Services	20.00		
BENEFIT SERVICES	153.80	164.10	164.10
Financial	1.00	1.00	1.00
General Accounting	22.50	24.00	24.00
Benefit Accounting	16.50		
Records Management		12.00	12.00
Investment Accounting	4.00	4.00	4.00
Staff Services	22.75	23.15	23.15
FINANCIAL	66.75	64.15	64.15
Information Technology	4.00	5.00	6.00
Network Support	16.00	18.00	26.00
ISS – Green Team	13.00	13.00	13.00
Technical Support	19.00	21.00	9.00
ISS – Gold Team	14.00	11.00	14.00
System Architecture	5.00	5.00	5.00
INFORMATION TECHNOLOGY	71.00	73.00	73.00
TEAM PROGRAM	57.00	69.00	69.00
PENSION FUND TOTAL	552.05	579.75	579.75

FTEs by Division/Department – Cont'd

Division / Department Name	Actual FY 2015	Budgeted FY 2016	Budgeted FY 2017
TRS-Care & Agency Support to TRS-Care	40.00	41.00	41.00
TRS-ActiveCare & Agency Support TRS-ActiveCare	18.00	18.00	24.00
Optional Insurance	1.00	1.00	1.00
403(b) Certification Program	0.50	1.00	1.00
OTHER FUNDS	59.50	61.00	67.00
AGENCY TOTAL	611.55	640.75	646.75

Explanation of FTE Variances

Staffing levels for FY 2017 convey new executive leadership and the need to put in place an organizational structure that aligns with TEAM driven changes. These include:

- Expand the agency's focus on employee training and quality assurance by shifting resources to Human Resources to be responsible for Benefit Services and HIB quality assurance and classroom training for employees
- Records Management moved from Benefit Services to Financial Services Division
- Benefit Accounting moved from Financial Services Division to Benefit Services
- Six additional staff for TRS-ActiveCare to provide additional member support and to audit healthcare plan performance

Capital Projects, Comparison by Biennium

A capital budget is defined as an asset with a biennial project cost or unit cost in excess of \$100,000. Without the approval of the Governor or Legislative Budget Board, agencies may transfer appropriation amounts not exceeding 25% as defined by Article IX Provisions of the General Appropriations Act (GAA).

Repair or Rehabilitation of Buildings and Facilities

Project	Expended FY 2014	Expended FY 2015	Budgeted FY 2016	Budgeted FY 2017	Description
Building Renovations	189,738	247,762	0	1,000,000	Provides funding to continue a multi-year effort to more efficiently utilize agency space within the scope of our strategic plan
Air Handler Replacement	114,285	4,497,487	0	0	Replace components of the HVAC system that have exceeded expected useful life with new components that are more efficient
Pressurization of Stairwells	0	450,000	0	0	Install pressurization fans and controls for west building stairwells
Sump Pump System Upgrade	0	0	0	1,200,000	Replace components of the sump pump system that have exceeded expected useful life with new components that are more efficient
Garage Fire Suppression Upgrade	0	0	0	1,500,000	Replace unprotected steel piping with corrosion resistant fire suppression system piping
Data Center Generator	0	0	0	600,000	Upgrade the backup generator system that provides power to the data center during emergencies and power outages
TOTAL	\$304,023	\$5,195,249	\$0	\$4,300,000	

Acquisition of Information Resource Technologies

Project	Expended FY 2014	Expended FY 2015	Budgeted FY 2016	Budgeted FY 2017	Description
Mainframe & Peripheral Upgrades	367,141	13,034	0	840,000	supports upgrading and expanding the TRS enterprise server peripherals to reduce capacity constraints and issues with compatibility and obsolescence
Telecom Upgrade	321,465	387,669	450,000	450,000	supports the upgrade, development, and maintenance of the telecommunications infrastructure
Investment Systems Upgrade	253,448	154,021	148,501	221,499	define, develop and implement a Business Intelligence strategy and program, and to migrate existing investment accounting data
Pension Legislation	0	0	0	200,000	anticipates legislative changes and supports the agency's mission and strategic plans
PC Workstation Refresh	339,887	334,696	211,820	528,180	project focused on upgrading outdated hardware technology
TOTAL	\$1,281,941	\$889,420	\$810,321	\$2,239,679	

General Provisions

The Teacher Retirement System (TRS) uses the provisions of Article IX (General Provisions) of the General Appropriations Act adopted by the 84th Texas Legislature (GAA) as guidelines in administering the system to the extent that the Executive Director or a designee acting in the absence of the Executive Director determines that individual provisions of Article IX are in the best interests of TRS and are not in conflict with applicable TRS laws, fiduciary duties or policies. The following provisions are subject to this paragraph.

PENSION TRUST FUND ADMINISTRATIVE OPERATIONS – In adopting the related Budget Resolution, the TRS Board of Trustees (board) has made a fiduciary finding authorizing expenditures from the Pension Trust Fund to pay for TRS' administrative operating expenses for the fiscal year because such operating expenses are required to perform the fiduciary duties of the board. Further, the legislature has not appropriated money from the State's general revenue fund for TRS to use in paying operating expenses for the fiscal year.

USE OF SOFT DOLLAR CREDITS, COMMISSION RECAPTURE BALANCES, AND COMMISSION SHARING ARRANGEMENTS (CSAs) – The board finds that the expenditure of funds provided by soft dollar credits, commission recapture balances and CSA balances to obtain research, goods and services supporting the investment function are necessary for the efficient and effective administration of pension trust fund assets and performance of the board's fiduciary duties. Uses of soft dollar credits, commission recapture balances, and CSA balances shall be administered in accordance with the board's Soft Dollar Policy and applicable law.

CONTRACTOR PROVIDED RESOURCES – As part of the contracting process for goods and services (including investment management services), TRS has access to additional resources for operations, including services, credits deducted from payables, temporarily-assigned, non-TRS workers, or allowances, as part of the total contract consideration provided by the vendors or investment managers. Such resources may only be used or expended to the same extent, and for the same purposes, and are subject to the same duty of care and general requirements and policies, as other pension trust fund assets.

HEALTH BENEFITS FUNDS – Operations of the Texas Public School Retired Employees Group Benefits Program are funded from the Retired Employees Group Health Insurance Fund (the TRS-Care Fund). Operations of the Texas School Employees Uniform Group Health Coverage Program are funded from the Texas School Employees Uniform Group Coverage Trust Fund (the TRS-ActiveCare Fund).

SECTION 403(b) CERTIFICATION PROGRAM – Operations of the 403(b) Certification Program are funded from the 403(b) Administrative Trust Fund.

PERSONNEL SERVICES

Hiring and Personnel Actions – The Executive Director, or Deputy Director in the absence of the Executive Director, is authorized to hire personnel, to transfer personnel within the agency, and to approve base salaries, salary changes, and other personnel actions including but not limited to promotions, demotions, merits, and recruitment and retention bonuses. TRS will generally base its salary schedules, position classifications, and salary administration practices on the provisions of Article IX, Chapter 659 of the Government Code, and other relevant legislation to the extent the Executive Director determines a

particular provision is in the best interest of the system and not in conflict with applicable law, fiduciary duty or TRS policy. The board will set the salary rate for the Executive Director. The Executive Director is authorized to set the base salaries for all other exempt positions within the not-to-exceed amounts listed in the GAA or any amended limits adopted by the board from time to time.

Performance Incentive Compensation – The Executive Director, or Deputy Director in the absence of the Executive Director, is authorized to implement the performance incentive compensation plan(s) as approved from time to time by the board including authorizing payment of the performance incentive compensation to the extent funds have been included in the approved budget for that purpose or are otherwise made available through the budget execution authority in these general provisions.

Longevity Pay and Benefit Replacement Pay – The board authorizes the payment of Longevity Pay and Benefit Replacement Pay in addition to base pay. The payment of Longevity Pay and Benefit Replacement Pay to eligible TRS employees shall be administered in a manner consistent with the provisions of Chapter 659 of the Government Code and other relevant legislation.

OTHER PERSONNEL COSTS – As required for the efficient operations of the TRS, Other Personnel Costs, including Employer Retirement Contributions, Employer FICA Contributions, Employer Health Insurance Contributions, and Benefit Replacement Pay, are provided as estimated amounts as authorized in the GAA and may be revised by the Executive Director, or Deputy Director in the absence of the Executive Director, if needed to pay operating expenses for the fiscal year.

PROFESSIONAL SERVICES – The Executive Director, or Deputy Director in the absence of the Executive Director, is authorized to contract for professional services and approve and disburse professional fees to persons or firms who render such professional services to TRS. The board finds that the budget for Professional Services authorized in this document is necessary to the performance of its fiduciary duties.

COUNSELING SERVICES – In accordance with Texas Government Code, Chapter 825, Subchapter G, the board authorizes the Executive Director or his designees, to the extent feasible, to make individual retirement benefits counseling sessions available to members in conjunction with informational or educational programs presentations that TRS provides for groups throughout the state, in order to promote efficiency and minimize the cost of such services. TRS will determine the geographic regions most in need of retirement benefits counseling and will provide retirement benefits counseling services in these regions throughout Texas.

BUDGET EXECUTION AUTHORITY – As required for the efficient operation of TRS programs, the Executive Director, or Deputy Director in the absence of the Executive Director, is authorized to transfer budgeted funds up to \$100,000 or 12 1/2% of an expense category, whichever is greater, between different expense accounts and major expense categories, so long as the total approved budget for operating expenses and capital outlay is not exceeded. This provision applies separately to the Pension Trust Fund, the TRS-Care Fund, the TRS-ActiveCare Fund, and the 403(b) Administrative Trust Fund.

CONTINGENCY FOR CATASTROPHIC OCCURRENCES – In the event of a catastrophic occurrence which destroys or incapacitates TRS' physical plant and/or primary operating resources, the Executive Director, Deputy Director, or Chief Financial Officer may exceed the total approved budget to the extent necessary to achieve

recovery of operational capabilities. The Executive Director, Deputy Director or Chief Financial Officer will notify the Budget Committee of the board, as soon as possible, of the extent of the situation and the budgetary impact.

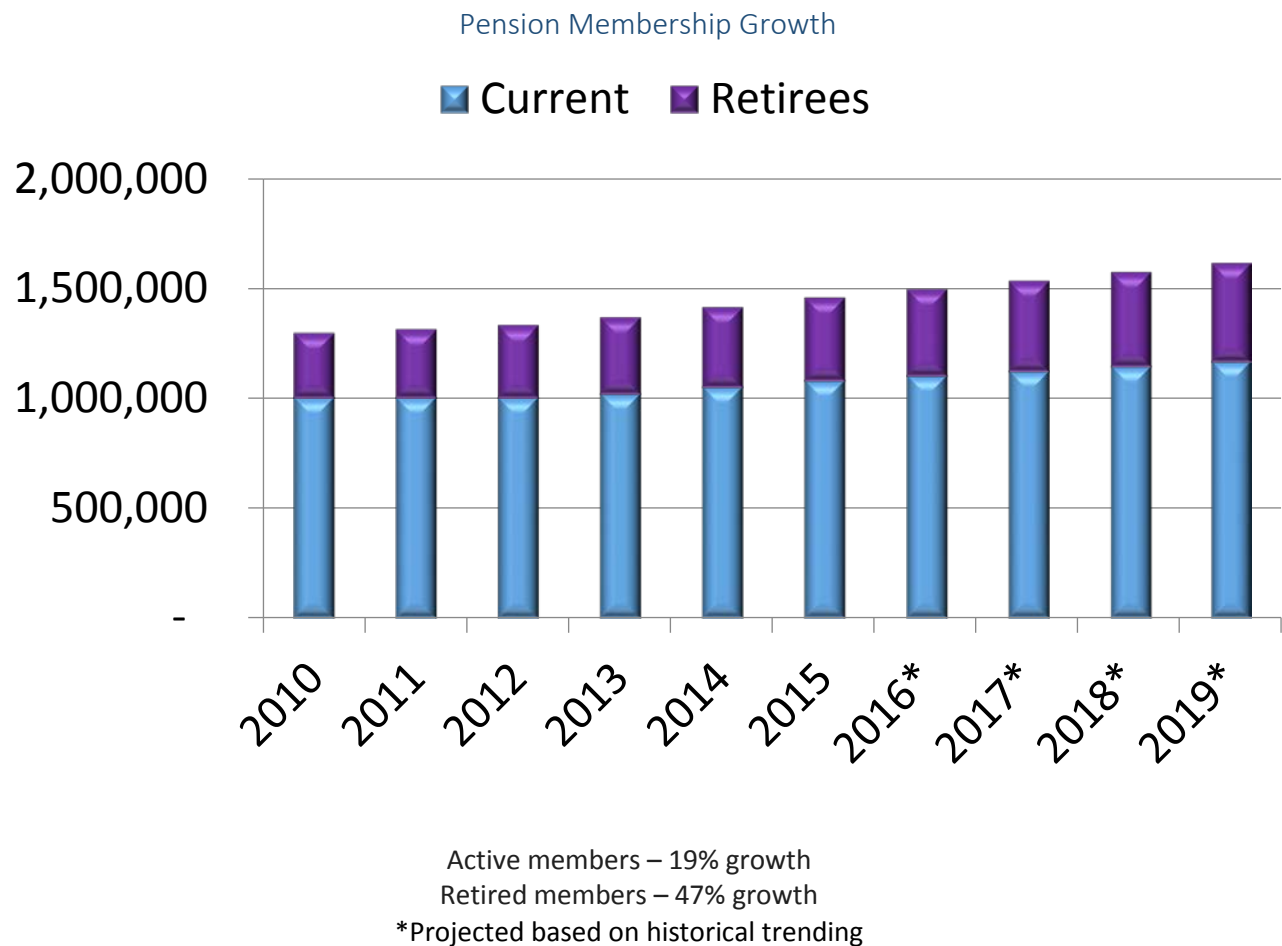
Contracts that Exceed \$100,000 in Value

The Procurement and Contracts department is responsible for acquiring goods and services, including developing and advertising solicitations, evaluating responses, awarding purchase orders, contract negotiations, tracking and reviewing contracts, and reporting. The TRS Procurement Policy is administered consistent with applicable federal and state laws and TRS policies and procedures, as well as with TRS' fiduciary responsibilities.

Contractor	Description	Start Date	End Date	Contract Amount
Ca, Inc.	Renewal Of Ca Software 4 Yr Agreement	09/01/2015	08/31/2019	500,729.62
IBM Corporation	IBM Db2 10 Z/os Maintenance	09/01/2015	08/31/2016	393,971.74
Reinhart Boerner Van Deuren SC	2016 Outside Counsel Services - Fiduciary	09/01/2015	08/31/2017	250,000.00
State Auditors Office	FY2016 CAFR Audit	09/01/2015	08/31/2016	229,000.00
Unify Inc.	Unify Telephone System Maintenance	09/01/2015	08/31/2016	152,243.87
Austin Ribbon & Computer Supplies, Inc.	Blanket Order New Oem Toners Purchased	09/01/2015	08/31/2016	125,000.00
SHI Government Solutions	Informatica Etl SW Maintenance	09/01/2015	08/31/2016	112,675.00
Pitney Bowes Presort Services Inc.	Mail Presort Services	09/01/2015	08/31/2016	111,655.00
Whitlock Group, The	Webcasting/Hosting Services FY16	09/03/2015	08/31/2017	138,370.52
Reveille Software Inc.	Reveille Software Services	10/09/2015	10/08/2016	172,374.00
Cobos Design & Construction Inc.	Blanket Order For Remodel Service	10/12/2015	08/31/2016	100,000.00
Reconstruction Experts	Blanket Order For Remodel Service	10/12/2015	08/31/2016	100,000.00
Insight Global	Developer Analyst 3	10/14/2015	08/31/2016	149,760.00
Truven Health Analytics Inc.	TRScare & TRSactivecare Audit Service	11/01/2015	08/31/2019	741,750.00
Arthur J Gallagher Risk Management Service	Directors & Officers Insurance	11/01/2015	11/01/2016	593,603.00
Catapult Systems	Website Redesign Project	11/03/2015	08/31/2016	577,360.00
Allied Consultants Inc.	IT Services-Staff Test Analyst 3	11/09/2015	07/31/2016	112,000.00
Adjacent Technologies Inc.	Upgrade To FileNet P8 5.2	01/04/2016	05/16/2016	176,140.00
Sequel Data Systems	Pure Storage Flasharray W/ Services	01/27/2016	04/30/2017	485,138.89
Level 3 Communications LLC	Acdr Internet Services For Co-Location	02/08/2016	12/31/2018	169,358.00
Allied Consultants Inc.	Database Administrator 2 Emerging	03/01/2016	02/28/2017	203,840.00
Allied Consultants Inc.	Developer Analyst 3 Emerging	03/01/2016	02/28/2017	174,720.00
Levi, Ray & Shoup, Inc.	Open System Software Vpsx 50 Printer	03/21/2016	03/31/2021	117,384.00
Visual Innovations Co Inc.	Board Room Audio-Visual Upgrade Project	03/22/2016	06/15/2016	111,659.63
Gartner Group	IT Leadership Team Services	04/01/2016	03/31/2017	199,994.00
				6,198,727.27



Appendix A: Cost Drivers, Statistical and Supplemental Data

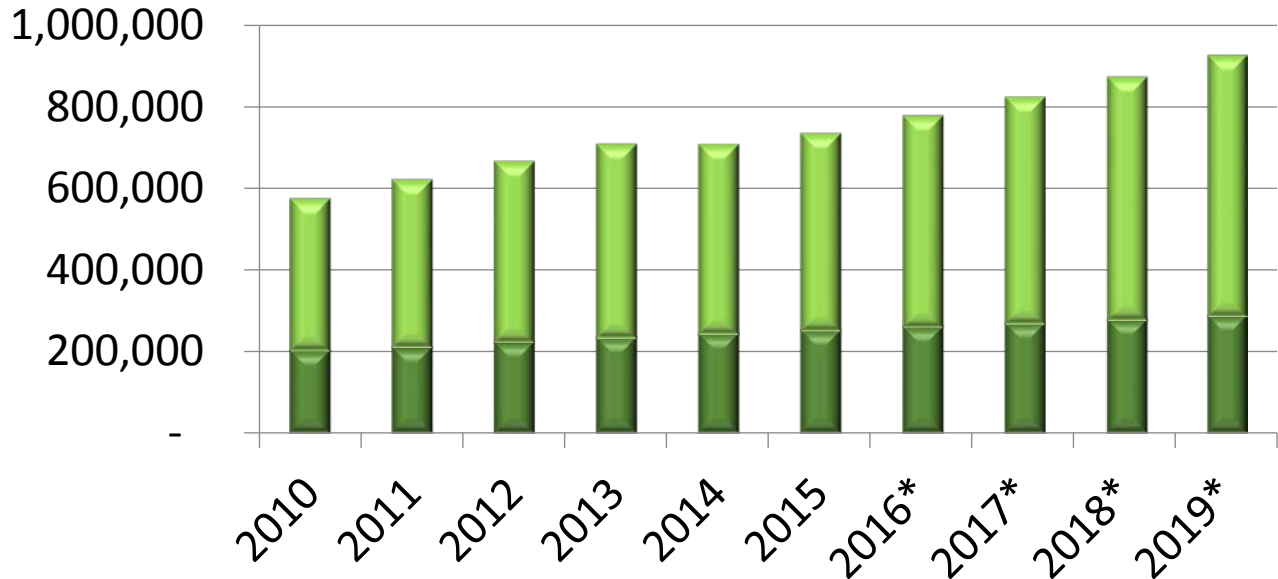


This chart shows the trend in the number of Teacher Retirement System (TRS) members over time for both active members and retired members. The rate of growth for retirees is triple that of active members. The growth of active members has traditionally been correlated to state population growth which is expected to grow an average of 1.2% per year through 2050 according to the Texas State Demographer.

The growth in retired members depends on a number of factors and can be influenced by the number of teachers reaching retirement age, the change in benefits design, the change in state funding provided to local districts and general economic conditions. The number of teachers reaching retirement age is expected to increase with the baby boomer population aging in to retirement and will plateau as that generation fully engages retirement.

Health Care Membership Growth

■ Care ■ Active Care



TRS-Care Membership – 34% growth
 TRS-ActiveCare Membership – 87% growth
 *Projected based on historical trending

This chart shows the historical growth in the membership of our healthcare programs. The growth in TRS-Care, which is the healthcare plan for retirees, is largely dependent upon the growth in our number of retired members.

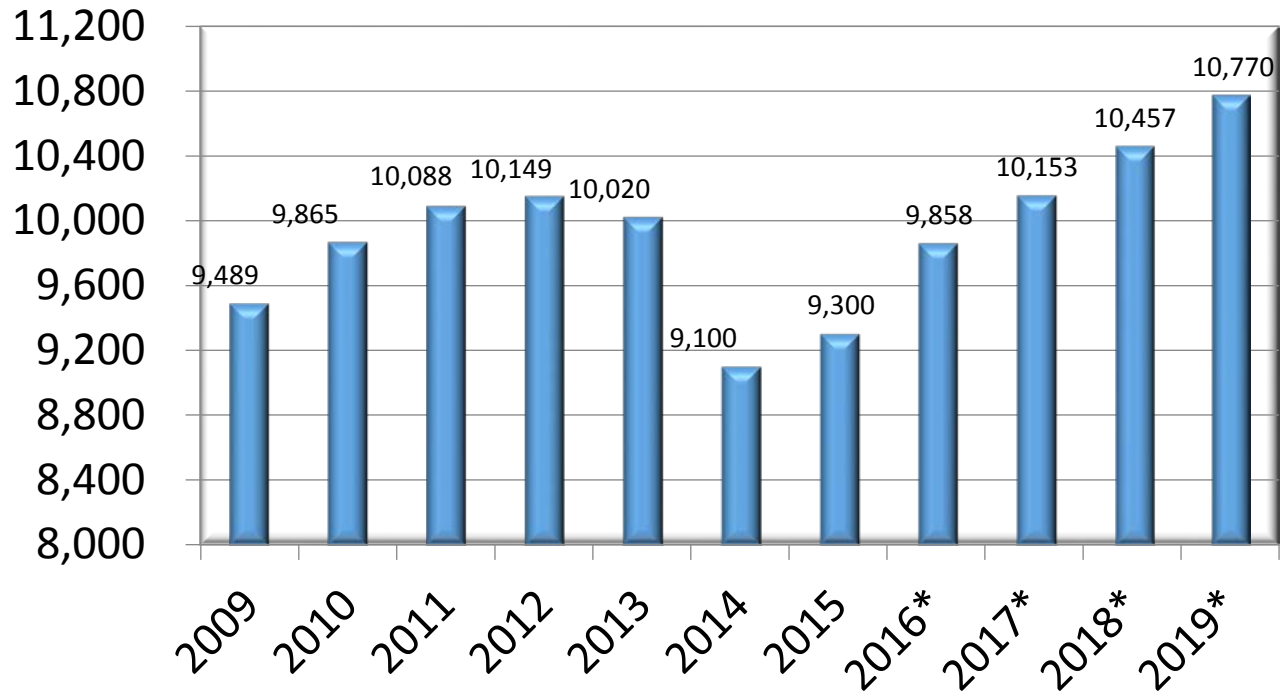
The growth in TRS-ActiveCare, which is the healthcare program for active TRS members, is dependent on a host of factors including the growth in active TRS members and the number of districts that choose to participate in the program. We have seen an acceleration of district participation in ActiveCare over the past decade accounting for the substantial growth in TRS-ActiveCare enrollment.



*Projected based on historical trending.

This chart displays the calling volume handled by the TRS Telephone Counseling Center (TCC) over time. The call volume is dependent upon membership growth as well as the number of members choosing to retire in a given year. In future years, as web-based self-service features are added to the TRS website, call volume may decrease. Call volume has a trickle-down effect on other areas of the benefits division in that calls can create processing actions which consume additional staff time.

Office Counseling Visits

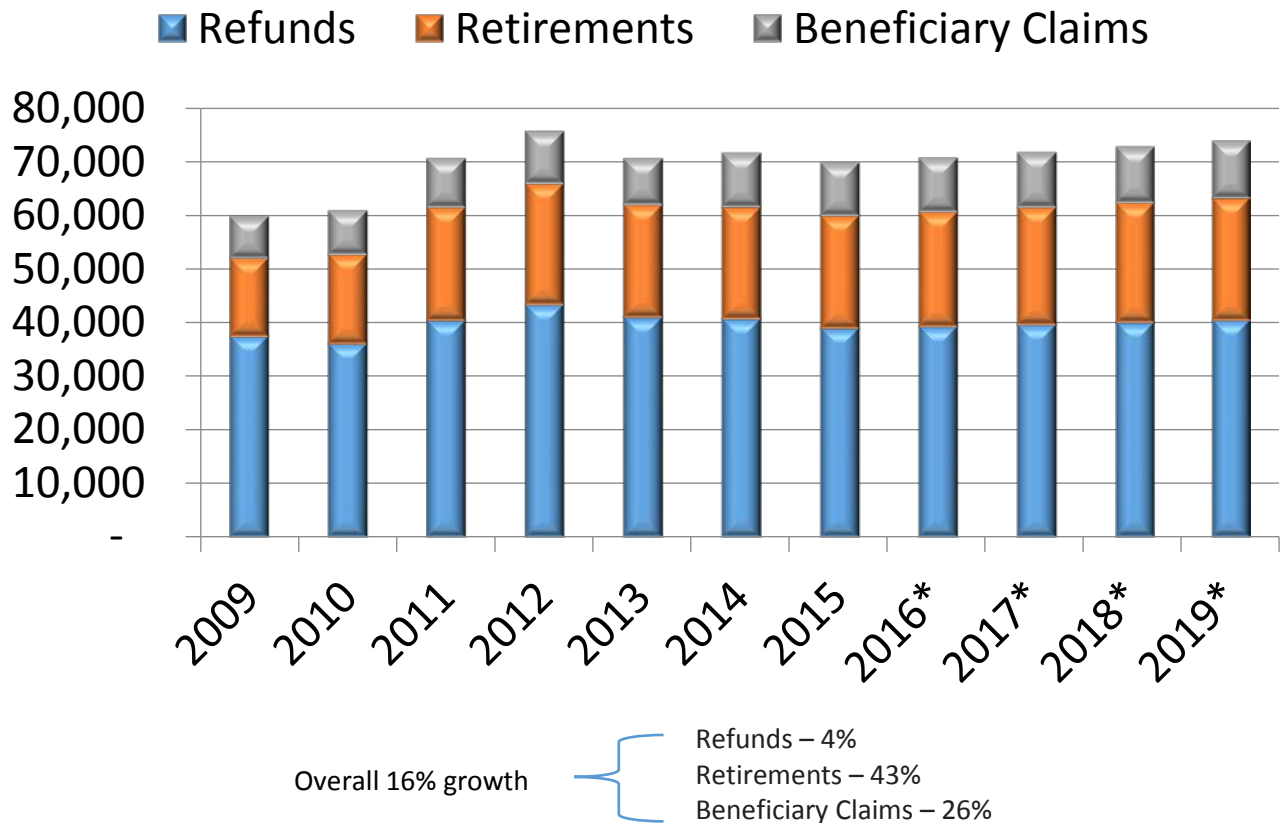


*Projected based on historical trending.

This chart shows the office counseling visit volume over time. The office visit volume is dependent upon membership growth as well as the number of members choosing to retire in a given year. In future years, as Web-based self-service features are added to the TRS website, office visit volume may decrease.

For the near future, we are expecting an increase in the number of office visits as the number of retirement age active members increases. This may be a trend for the next five to seven years or longer before the office visit volume plateaus and potentially declines as younger generations of members increasingly interact with Web-based tools.

Benefit Processing Activity

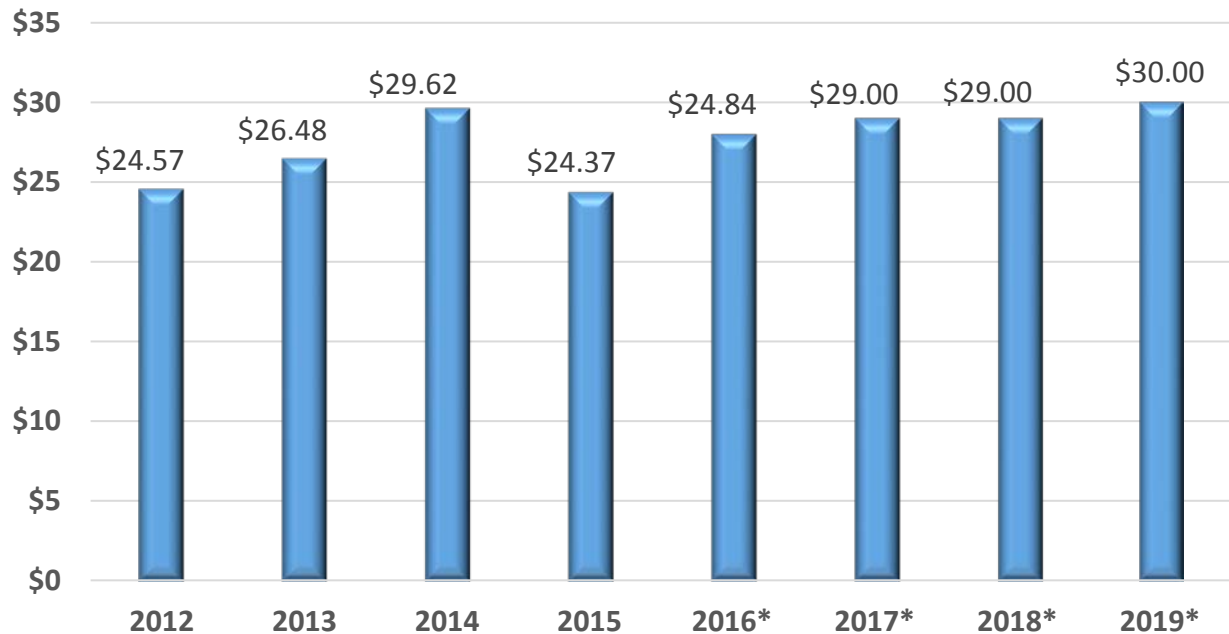


*Projected based on historical trending.

This chart shows the pension benefit processing volume over time for the main beneficiary activities. The processing volume is dependent upon membership growth as well as the number of members choosing to retire in a given year. In future years, as Web-based self-service features are added to the TRS website, processing volume may decrease.

For the near future, TRS expects an increase in volume as the number of retirement age active members increases. This may be a trend for the next five to seven years or longer before the volume plateaus and potentially declines as younger generations of members increasingly interact with web based tools.

Benefit Cost per Member



FY 2011 included one-time cost of expensed technology project.

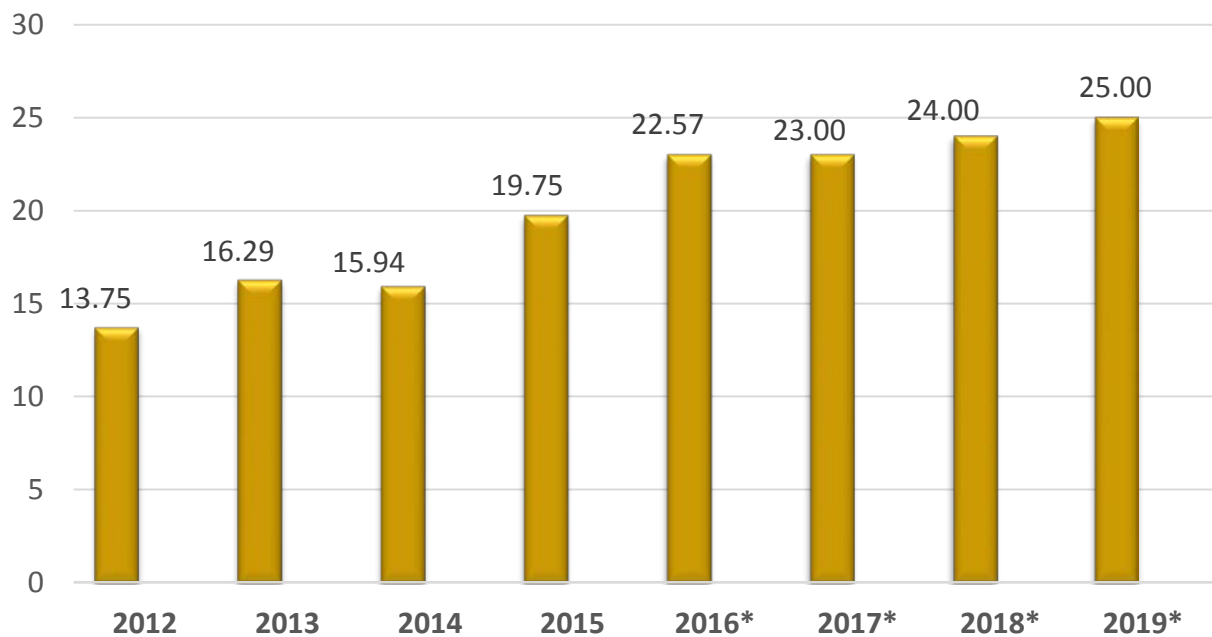
CEM Peer cost in FY 2015 was \$91.85.

*Projected based on historical trending.

The benefit cost per member is defined by the total benefit cost divided by the number of members. This data is collected and calculated by a company called CEM Benchmarking Incorporated which is a consulting company specializing in performance data for large, public pensions. TRS is then compared to 13 peer pension plans for the purposes of measuring performance.

The cost per member number is exclusive of investment costs and includes all administrative expenses related to running the pension plan. Costs related to running the healthcare programs are excluded as well. The expectation going forward is that costs will continue to increase due to inflationary pressure on normal operating costs as well as inflationary pressure in the local job market. Austin is fast becoming a relatively expensive job market for employers. TRS is no different.

Investment Expense as Basis Points of Net Assets



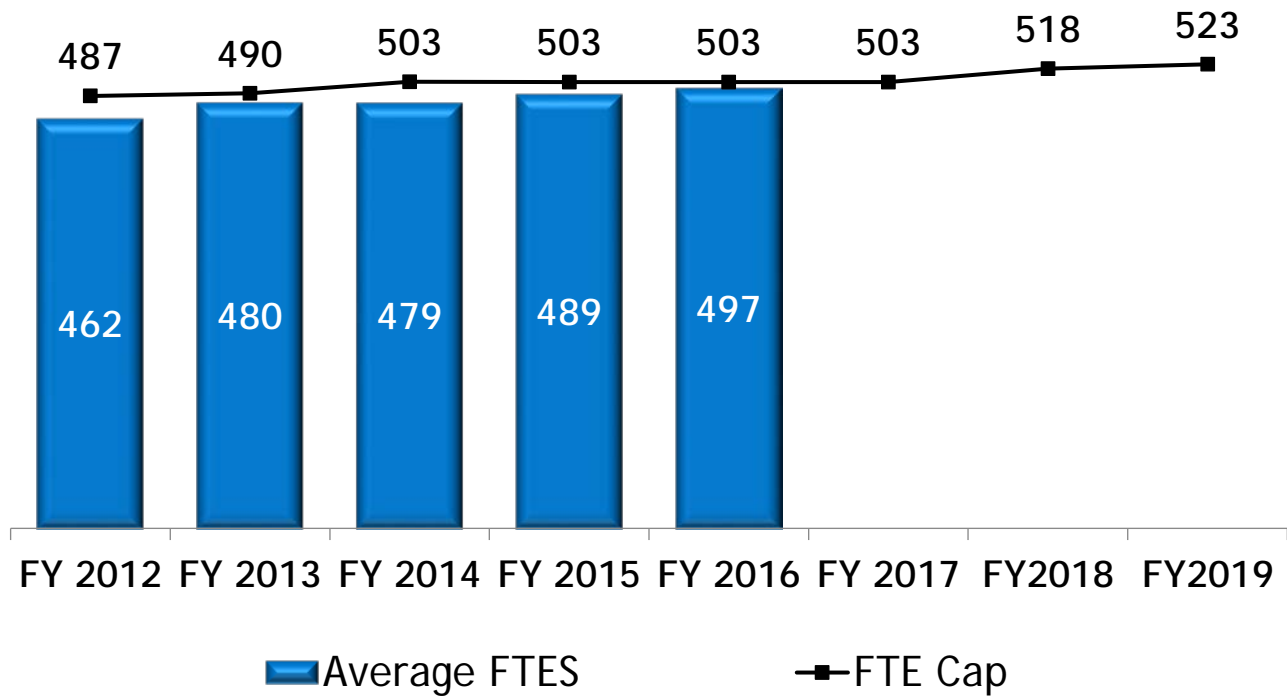
FY 2011 included one-time cost of expensed technology project.

*Projected based on historical trending.

This investment expense table measures how much TRS spends to generate investment gains. This measure is defined in terms of basis points relative to the net pension assets. A basis point is one hundredth of a percentage point.

This data is used to measure the performance of the investment management function. Measure performance in terms of basis points is a standard investment industry metric. TRS costs have increased over time as investment returns are increasingly harder to come by due to current economic and stock market conditions. The investment management division has increased staffing to more effectively position the pension fund for growth and to effectively mitigate risk.

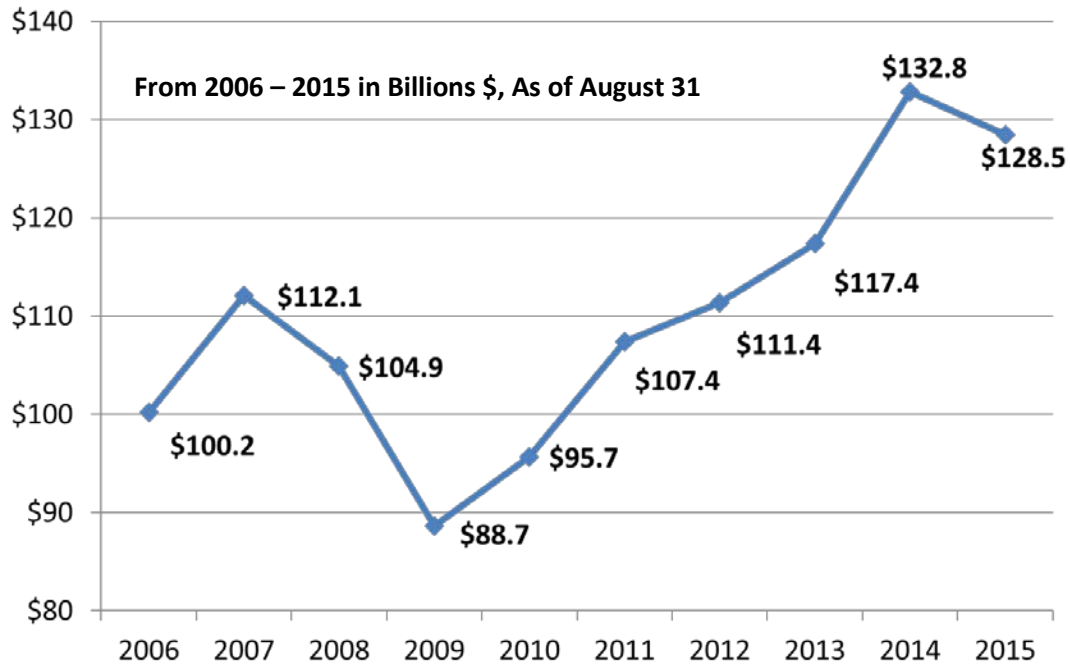
Full Time Equivalent (FTE) Employees



Excludes TEAM, interns and healthcare. FY 2016 is as of 6/30/2016.

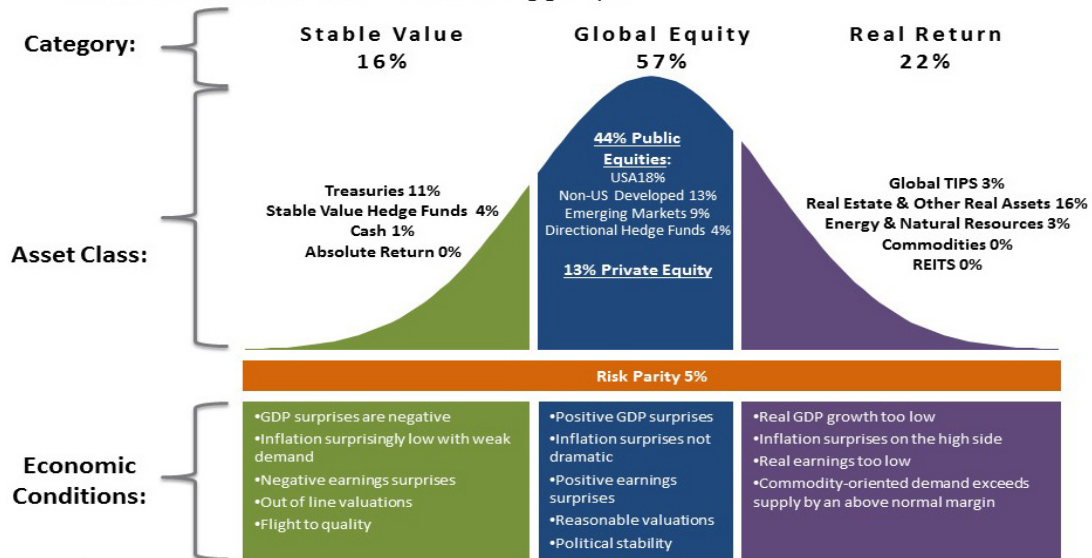
TRS participates in the biennial legislative appropriations process in requesting funds for Administrative Operations. In the General Appropriations Act, the Legislature establishes state employment levels on Full-time Equivalents (FTEs). The agency reports quarterly to the State Auditor's Office the actual FTEs relative to the cap. Through legislative intent, TRS is exempt from including the TEAM and interns FTEs in the calculation. The chart above displays the average number of FTEs by fiscal year against the FTE cap. For the current fiscal year (FY 2016), the average FTEs reported is as of the third quarter ending June 30, 2016.

Pension Trust Fund Balance



The TRS Pension Fund finished FY 2015 with a net position value of \$128.5 billion which was a decrease of 3.2% over FY 2014. The one year return rate was a negative 0.27% compared to a one year return of 16.9% for FY 2014. The three year, five year and ten year return rates are 8.3%, 9.6% and 6.2% respectively.

The Trust is allocated across the following groups:



Appendix B: Glossary

403(b) Administrative Program Fund (0864) - Certification program in which companies must be certified by TRS to offer qualified investment products to public education employees through payroll deductions in accordance with Internal Revenue Code section 403(b). Authority for the program can be found in Vernon's Civil Statutes, Title 109, Article 6228a-5, Sections 4-8A and in the Texas Administrative Code, Title 34, Part 3, Chapter 53. The program began operations on September 1, 2001.

Appropriated - Refers to the dollars or associated full-time equivalent positions authorized for specific fiscal years, and to the provisions for spending authority.

Annual Operating Budget - A detailed one-year financial plan supporting the agency's business operations. The one-year period is from September 1 through August 31. The agency's operating budget communicates resource needs and allocates those resources to the appropriate functional parties charged with executing the strategic vision of the agency.

Appropriation Year (AY) - Refers to the specific fiscal year for which an appropriation is made. The appropriation year dictates the year to which the expenditure is authorized/charged.

Base Request - The base request represents the basis for the agency's biennial budget. The base request cannot exceed the appropriated amount established by the legislature through the prior biennial GAA, adjusted for Article IX appropriation reductions.

Biennium - Two-year funding cycle for legislative appropriations.

Budgeted – refers to the planned level of expenditures, performance, or number of full-time equivalent positions for a particular fiscal year.

Capital Budget - The portion of an agency's appropriation that is restricted to expenditures for designated capital construction projects or capital acquisitions.

Expended - Refers to the actual dollars or positions used by an agency or institution during a completed fiscal year; a goal or strategy; an object of expense; or an amount from a particular method of finance.

General Appropriations Act (GAA) - The law that appropriates biennial funding to state agencies for specific fiscal years and sets provisions for spending authority.

Full-Time Equivalents (FTEs) - Units of measure that represent the monthly average number of state personnel working 40 hours per week.

Fiscal Year (FY) – September 1 through August 31 and specified by the calendar year in which the fiscal year end, e.g. FY 2014 runs from September 1, 2013 through August 31, 2014.

Key Performance Measure – A measure that indicates the extent to which an agency is achieving its goals or objectives and that is identified in the General Appropriations Act along with targeted performance objectives for each year of the biennium. These can be outcome, output, efficiency, or input/explanatory measures.

Lapsed Funds - The unobligated balance in an item of appropriation that has not been encumbered at the end of a fiscal year or at the end of the biennium. Appropriations expire if they are not 1) obligated by August 31 of the appropriation year in which they were made, or 2) expended within two years following the last day of the annual year.

Legislative Budget Board (LBB) – A legislative agency consisting of the lieutenant governor, speaker of the house, and eight members of the legislature who initiate state budget policy and who have specific charges to direct the expenditure and appropriation of state funds.

Measure – An indicator of agency effort and accomplishments. Measures indicate agency accomplishments already achieved, planned, or required by legislative directive.

Method of Finance - This term usually appears as a heading for a table that lists the sources and amounts authorized for financing certain expenditures or appropriations made in the General Appropriations Act. A source is either a “fund” or “account” established by the comptroller, or a category of revenues or receipts (e.g. federal funds).

Pension Trust Fund (960) - TRS administers retirement and related benefits to employees and beneficiaries of employees of the public, state-supported, educational institutions of Texas. It operates primarily under the provisions of the Texas Constitution, Article XVI, Section 67 and Texas Government Code, Title 8, Subtitle C. The pension trust fund is a defined benefit retirement plan that is a qualified pension trust under Section 401(a) of the Internal Revenue Code.

Programs - The FY 2017 Operating Budget request covers funding for each division. Amounts identified in the approved budget estimates reflect the most appropriate strategy for core activities and continuing programs.

TRS-ActiveCare Fund (0855) - provides health care coverage to employees (and their dependents) of participating public education entities. Optional life and long-term care insurance, which are provided to active members and retirees, are also accounted for in the fund. Authority for the plan can be found in the Texas Insurance Code, Title 8, Subtitle H, Chapter 1579 and in the Texas Administrative Code, Title 34, Part 3, Chapter 41. The plan began operations on September 1, 2002.

TRS-Care Fund (0989) - is an employee benefit trust fund and provides health care coverage for certain persons (and their dependents) who retire under TRS. The statutory authority for the program is Texas Insurance Code, Chapter 1575 and Texas Administrative Code, Title 34, Part 3, Chapter 41. The inception of the plan was fiscal year 1986.

Unexpended Balance (UB) or Carry-Forward - The unobligated amount left in an item of appropriation at the end of an appropriation period. The term also refers to the amount of an appropriation, a fund, or a category of revenue which is brought forward (appropriated) to the succeeding fiscal year. Agencies must have legislative authority to move funds from one year to the next and/or from one biennium to the next biennium.

TRS Mission Statement

The mission of the Teacher Retirement System of Texas is:

Improving the retirement security of Texas educators by prudently investing and managing trust assets and delivering benefits that make a positive difference in members' lives.



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